THE Freeman

IDEAS ON LIBERTY

OCTOBER 1961

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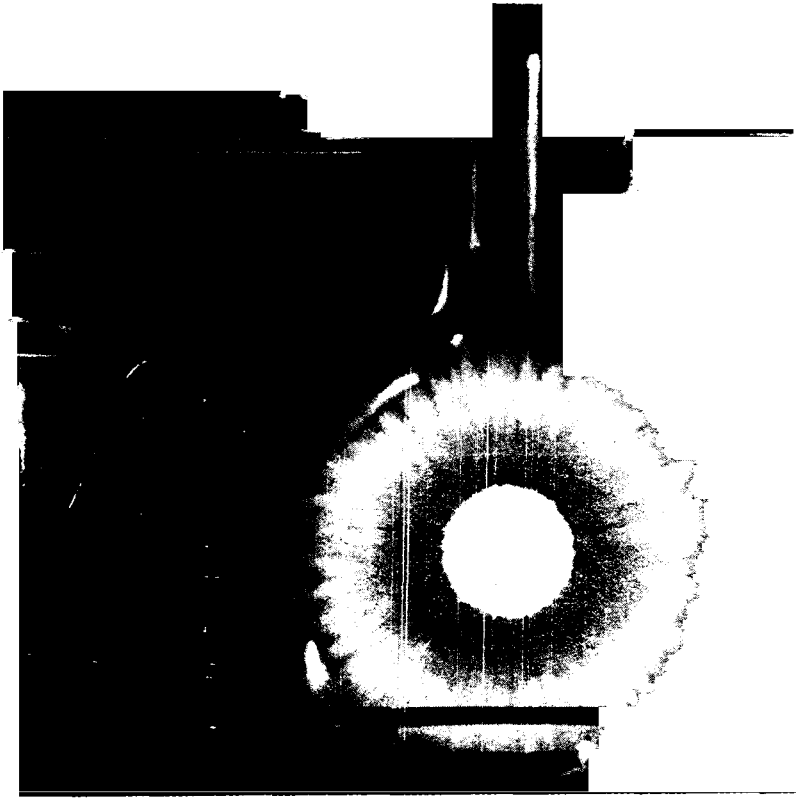

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THE Freeman

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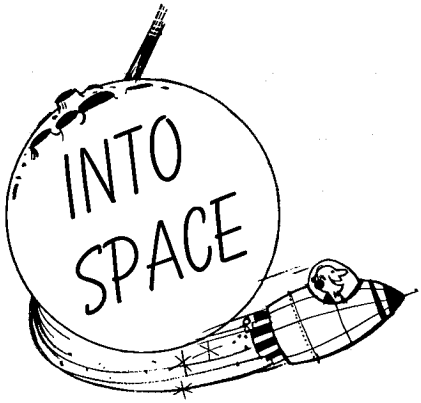

AND BEYOND CRITICISM

LEONARD E. READ

THERE MUST BE millions of Americans who are extremely skeptical about our participation in the race to orbit men and balloons and electronic gadgets; who question the wisdom of putting astronauts on the moon; who see no sense in building unbelievably expensive apparatus to send messages into interstellar space to contact creatures who may not even exist and, anyway, could not understand our message if they do – nor we their reply.[1] And, if all the fantasy turned out to be true, the exchange of messages would take so long that the sender would not be alive to hear the reply! Yes, this fantastic business has undoubtedly generated an enormous amount of skepticism.

But where is the criticism? Only now and then does someone take a sly poke at political spending gone cosmic. Why so much silent skepticism and so little overt criticism? To get at the answer, turn back a quarter century to the New Deal.

Created in 1935 by Executive Order was the WPA – the Works Progress Administration – a companion of NRA, AAA, CCC, FSA, HOLC, and many other so-called alphabetical agencies. Essentially, the WPA was a make-work program, often referred to by its critics as "boondoggling." While there may have been few if any instances of the unemployed put to work raking leaves across the

[1] It's probably true that millions of persons, all through the ages, would have scoffed at anything new and different that might have come to their attention. What is different about the point under discussion is that it is not a privately developed and financed project, but one which those who least want it are nonetheless compelled to finance.

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road and back again, this is what it amounted to in the eyes of many citizens with a reputation for straight thinking. The point is, these nostrums were roundly and widely lampooned and ridiculed, their fallacies widely understood and exposed. One can catch the spirit of criticism of the time from a jingle by Ogden Nash, "One from One Leaves Two":

Higgledy piggledy, my black hen,
She lays eggs for gentlemen.
Gentlemen come every day
To count what my black hen doth lay.
If perchance she lays too many,
They fine my hen a pretty penny;
If perchance she fails to lay,
The gentlemen a bonus pay.

Mumbledy pumbledy, my red cow,
She's co-operating now.
At first she didn't understand
That milk production must be
planned;
She didn't understand at first
She either had to plan or burst,
But now the Government reports
She's giving pints instead of quarts.

Fiddle de dee, my next-door
neighbors,
They are giggling at their labors.
First they plant the tiny seed,
Then they water, then they weed,
Then they hoe and prune and lop,
Then they raise a record crop,
Then they laugh their sides asunder,
And plow the whole kaboodle under.

Abracadabra, thus we learn,
The more you create, the less you
earn.
The less you earn, the more you're
given,
The less you lead, the more you're
driven,
The more destroyed, the more they
feed,
The more you pay, the more they
need,
The more you earn, the less you keep,
And now I lay me down to sleep.

I pray the Lord my soul to take
If some Soul Commission hasn't got
it before I wake.[2]

While the principle of the government boondoggle grew both in practice and adherents, and spawned millions upon millions of persons with a vested interest in its continuance, the prospect of its overthrow was kept alive by the liveliness of the criticism. Be it noted, however, that lively and effective criticism is possible only when there is general familiarity with the subject, which was the case as long as the boondoggle remained earthbound.

But put the boondoggle into orbit, into outer space, and the problem is obscured. It is put out of mind, outside the realm of common sense and, thus, beyond effective criticism. Outer space is little known, and who can qualify as having worth-while opinions on wholly unfamiliar matters? Re-

[2] Reprinted by special permission of the *Saturday Evening Post*. Copyright 1934 by the Curtis Publishing Company.

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gardless of the depth of one's skepticism, there is a natural tendency not to criticize those activities which involve abstruse matters clearly beyond one's ken. "Look who's talking!" is about all the nonexpert can expect to hear from listeners and readers. Such a discouraging prospect is enough to silence anyone who is skeptical of our space program. What, then, can a skeptic do? Well, he can ask questions, can't he?

A Fair Question

"What are these sorties into space to cost?" This is a fair question for the novice to ask, simply because there are no experts who might have a better right to ask it. No one knows the cost, not even the President of the United States! Nor the Director of the Bureau of the Budget! Nor James E. Webb, Administrator, National Aeronautics and Space Administration!

To the question, "What will it cost to put three men on the moon?" – a pilot-plant project now under way in the over-all moon undertaking and one of many space projects our nation is head-over-heels in – Mr. Webb replied, "The range of 20 to 40 billion dollars is a reasonable estimate."[3]

[3] See *U. S. News & World Report*, July 3, 1961, p. 58.

Since when does a person know what he is talking about in fiscal matters whose idea of "a reasonable estimate" is such that he can say, in effect, "Give or take 20 billion dollars"? Even one million dollars is beyond the power of most of us to conceive. And a thousand million ($1,000,000,000) surely is incomprehensible to nearly all of us. Roughly $1 every minute, day and night, since the birth of Christ! Or look at it this way: Take an average-sized American home (about 8,500 cubic feet), stuff every room as tightly as possible with brand new, crisp $1 bills.[4] There would be enough of the one billion dollars left over to purchase 50,000 such homes at $15,000 each! And the difference between the low and high of our government official's "reasonable estimate" – 20 billion dollars – would tightly stuff twenty homes and have enough left over to purchase 1,000,000 more!

A Realistic Estimate?

Further, who ever heard of a governmental estimate that turned out to be realistic? The record reveals that a substantial multiplier is always in order if we

[4] It takes 264 newly printed bills to make a stack one-inch thick. A vault containing 35,244 cubic feet is necessary to store only *one* billion such bills.

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are to reckon ultimate costs from original bureaucratic guesstimates. And, we must ask, what is the sense of three lunar inhabitants if it is not subsequently to locate on the moon another Cape Canaveral with its housing projects (pressurized housing?) and all of the other subsidiary paraphernalia? (An Associated Press release of August 2, 1961, refers to a government study of "some strange methods for sustaining life in a still stranger environment . . . including: insulated balloons and caves or tunnels. . . . protecting against solar radiation and the extreme temperatures ranging from 250 degrees in daylight to 230 below zero in darkness. Boring machinery for digging tunnels and other equipment for building bases is expected to be operated by remote control by a crew still within the space ship.") Could the total wealth of the United States any more than begin to finance such a moon dream?

Claims Examined

Let us now consider some of the claims made for this orbital program to which we as citizens are being rapidly committed.

CLAIM: *Military advantage.*

In answer to the question, "Is there any military advantage in going to the moon?" Mr. Webb replied, "Certainly."[5] To the question, "In what way?" he added nothing to convince a lay skeptic. His explanation, like that of others, implies military advantage but specifically we are left in the dark.

Few people dare to criticize any project, no matter how wild, if it carries the label "defense." Further, who among us can qualify as a lunar, military expert? Do even the members of the Joint Chiefs of Staff know any more about conducting warfare from the moon than any of us? Doubtless, they would be the first to confess their incompetence in this respect. Mr. Webb sheds some light on the subject when he admits it would take two and one-half to three days for a rocket to travel from the moon to the earth. Would not a modern atomic war with earth-launched missles be concluded before a moon rocket could reach our enemy?

CLAIM: *"To maintain its international prestige, the United States must match or better its competitor's efforts."*[6]

Who is qualified to diagnose "in-

[5] See *U. S. News & World Report*, July 3, 1961, p. 60.

[6] This and the following quotes, unless otherwise specified, are taken from a brochure, *SPACE Challenge and Promise*, issued by Aerospace Industries Association of America, Inc., 610 Shoreham

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ternational prestige"? This is pure collectivistic jargon. It has nothing to do with what a Swede or a Dane or an Italian will think of you or me or our compatriots considered individually, or how they will regard our ideals. It refers only to what the politicians of other countries think of our own politicians.

Has international prestige become one of the new national goals? Are we as a collectivity to seek prestige? – fame? – from among men? What has become of the idea that esteem is to be sought from a Higher Source? This notion of international prestige sounds like what might be expected from the godless state.

Even if it be conceded that prestige is among our ultimate goals, what competency has our bureaucracy demonstrated in this respect? Since World War II, our political apparatus has spent well over 100 billion dollars in foreign loans, "Voice of America," and the like. When, in American history, have so many foreign politicians thought so little of our own political leaders as now?

In any event, who has the competency to criticize this international prestige claim? For who of us can qualify as an authority in collective psychiatry?

CLAIM: *"This space weather station can give forecasters on earth the complete information they need to provide accurate weather information."*

Who can criticize this? For who is an expert meteorologist? Is there one? Strict attention to daily weather forecasts breeds doubt. Indeed, the meteorologists who impress this layman are those who know they know almost nothing about the earthly and cosmic forces which determine weather. These forces, like the mystery of the Universe itself, are so complex that they may never be unraveled by man. One thing for certain, it is not true that "a space weather station can give forecasters on earth the *complete* information they need to provide *accurate* weather predictions." However sincere this inaccurate prediction, it offers the taxpayer little assurance about the accuracy of the predictions that are to grow out of it.

CLAIM: *"It is certainly within the realm of possibility that, once man has mastered accurate forecasting, he may be able to do something about changing the weather."*

Building, Washington, D.C. AIA, as it is called, is a trade association whose members are contractors to the government for space hardware. An attempt is made in this attractive brochure to summarize, in simple terms, the arguments favoring the federal government's space program.

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What man? Any private citizen? Indeed not! Who then? Obviously, a government man. If government could control the weather, what would be the nature of the control? Would not the control of weather follow the same pattern as government's control of income: ". . . from each according to ability, to each according to need?" That is, would not rain, for instance, be shifted from states with abundant moisture and poured on the thirsty states? Socialized weather, no less! Heaven forbid!

According to bureaucratic claims, government has now relieved material insecurity. Acting on this wholly false assumption, bureaucrats are now suggesting that they can guarantee against celestial uncertainty. What next, little men?

No matter what the weather – rain, hail, sleet, snow, fog, heat, cold, or whatever – we should give thanks for its unpredictable variety. This is by way of expressing gratitude that God, not the government, is in command of it.

CLAIM *"One answer to the problem [justification of governmental space exploration expenditures] appears to be the communication satellite. . . . Not only could they solve the cable problem, but also offer less expensive and more rapid overseas message transmission. In addition, they offer the possibility of long-awaited international television."*

In the U.S.A., at least, communications – telephone, telegraph, teletype, wireless, radio, TV – have been private undertakings, financed with private capital. No one of the socialized systems of other countries remotely approaches our own in the excellence of its service. Yet, successful as our entrepreneurs have been, they (short-sightedly, for certain)[7] see no point in criticizing experiments in satellite communication as long as the enormous expense is met not from their own funds but from the daily bread of all the people. Space research "for free"!

Remove from the critic's role these people who know something about communications, electronics, and the like and who remains to raise questions? Only those of us with no more qualification than skepticism!

If bouncing messages off satellites is to be "less expensive" than cable transmission, as is claimed,

[7] Private manufacturers face many dangers in becoming contractors to the government for space hardware. For example, cost plus contracts, the payment of fantastic salaries for certain technical skills and other wasteful habits tend to unfit the manufacturer for commercial competition. The free market requires that we keep lean, hard, and alert or get out.

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then, pray tell, why is this not as appropriate a place for private capital as is transoceanic cable? Do not profits derive from cutting costs?[8] Or, is this only "less expensive" after the taxpayers have orbited the satellites, that is, have contributed all of the capital outlay? Conceivably, one of these days, the political "public" will claim communications to be its business. That day will mark the socialization [nationalization] of this great American industry.

Why do the claimants make reference only to expensive transoceanic cable? During the past few weeks, I have been on the telephone from Tokyo to Seattle and from New York to Buenos Aires. In each instance the conversation was clear and it took less than 1/50th of a second for our voices to reach each other. These talks were via wireless, not over cable. Would satellites be clearer or quicker or cheaper? These messages would be by wireless, wouldn't they? If the satellite route is superior, why does not private enterprise pick up the ball and the entire bill that goes with it? The answer is crystal clear: The market at this time does not warrant such a venture.

[8] For an explanation of this see "From Whence Come Profits" by John Chamberlain, and "Incompetent Employers" by Francis Amasa Walker, THE FREEMAN, October 1959.

CLAIM: *"There is also the navigation satellite. Placed in a precise orbit and equipped with a radio transmitter, it could provide position reports of high accuracy for ships and aircraft."*

Most skeptics of government's cosmic ventures know nothing of navigation, thus, how can they criticize this one, authoritatively?

During recent years I have traveled more than a million miles by air and in every instance the aircraft flew directly to its destined airport. Not lost for a moment, even when the destination was tiny Guam in the middle of the vast Pacific! Is the government warranted in spending billions of our individual incomes to improve on this state of perfection? Indeed, how is it possible to make precision more precise?

CLAIM: *"World mapping is still another area where space research can provide benefits."*

Few of us know anything about cartography, so how can we competently criticize mechanisms expensively blasted into orbit to do global charting? The proponents add, ". . . large portions of the earth cannot be precisely charted for lack of an accurate starting point. . . . A satellite can provide the needed base line . . ." What portions? The areas where people live appear to be well enough

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charted. For what waste areas is all of this unbelievably expensive precision needed?

CLAIM: *"The main goal of space research is knowledge."*

This claim may be in error. While it is next to impossible to grade motivational influences, there are several influences that suggest themselves as more powerful than the quest for knowledge:

What about the folks high in the bureaucracy who believe that the American economy can best be run by the federal government?[9] Is there a quicker way to make the transition from private enterprise to the omnipotent state than to take from individuals the choice as to how the fruits of their own labor shall be expended and to collectivize these choices in the central government? What promises to accomplish this faster than the multibillion dollar space program?

Or, what about the powerful political figures and the academicians who believe that government spending is the way to prosperity?

Or, what about the federal government's commitment to "full employment"? Doesn't the space program merely put the WPA boondoggle theory into enlarged practice and into orbit?

Or, what about the contractors who are gaining a vested interest in the lush space hardware business?

Or, finally, what about the scientists and the technicians who are "having a ball," who can indulge their wildest fancies without restraint, who can play Jules Verne and Buck Rogers in this sky's-the-limit game – and without having to give a moment's thought as to where the money is coming from?

Now, let us concede the dubious assertion that "the main goal of research is knowledge." Whose knowledge are these folks talking about? Mine? Yours? The extent to which it is yours or mine can be accurately determined by how much of our income we would voluntarily contribute were these projects on the open market. In my own case, there would be no contribution at all, for many other forms of knowledge have a higher call on my income than does space knowledge.

Obviously, there are other forms of knowledge that are important, but have no appeal to me personally. Each to his own bent. We live by these varied specializa-

[9] "... a panel of seven economists, including Professor John K. Galbraith of Harvard, stated: 'We reject the notion that government governs best which governs least. The federal government is our only instrument for guiding the economic destiny of the country.'"—From *First National City Bank Monthly Letter*, August 1959, p. 90.

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tions. But that form which I elect to pursue is mine to reap the benefit from and to pay for. This goes equally for our space scientists and technicians. If they say they cannot possibly gain the knowledge to put three men on the moon without coercively taking the income of those of us who have no interest in such a venture, then I say leave the moon unpopulated. If they say they are doing this for my own good, then I say they aren't God and, therefore, they know less than I when it comes to determining my good.

Forms of knowledge are infinite in variation. But some forms should have a priority over other forms. One of the most important forms of knowledge is to know what the rights of others are. Without this knowledge the other forms become dangerous. For nothing could be worse than a society composed of Ph.D.'s, all of whom are burglars or coercionists. Better that such "tradesmen" know nothing than so much!

The knowledge sought in the space program is financed by coercion. It is a contradiction of the moral law: Do not do unto others that which you would not have them do unto you. It is a contradiction of the economic law: The value of anything is what someone will offer you for it in willing exchange.

A Destructive Course

The boondoggle has been orbited and is, as I have tried to demonstrate, very close to being beyond effective criticism. Lacking criticism, there is no restraint against astronomical government spending except the inability on the part of our bureaucrats to spend faster than now. To say the least, they are hustling as best they can! In this course lies the destruction of our economy and in its wake a general insecurity and an irreparable stunting of all useful knowledge.

As I see it, only two areas remain for telling criticism: the moral and the economic. We are hopelessly lost in the area of stratospheric debate and, if any success is to attend our efforts, the discussion must be brought back to earthy and familiar territory. Otherwise, the technicians and their sacred science will cancel out our voices with their highly specialized jargon.[10]

[10] With tongue in cheek, Dr. Warren Weaver writes: "Perhaps we should turn the world over to this superbreed. Perhaps they could, if properly supported, really liberated, and put in charge—perhaps they could solve all problems of human relations, of economic stability, of international peace, and of the good life. Perhaps they should design not only the churches, but the creeds also. Perhaps the best music and the loveliest poetry *will* in a short time, come out of a machine." — From "The Imperfections of Science," *Proceedings of the American Philosophical Society* for October 17, 1960.

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A Reasonable Point of Reference

Of course, no discussion such as this can make sense unless we agree upon or at least have some understanding of each other's premise, datum line, point of reference, goal, objective. What are we anchored to as the purpose of earthly existence? Is it lunar supremacy? International prestige? Scientism? A collectivism more thorough than that which headquarters at the Kremlin? Rulership of the world? Gross national product? Political people control?[11] Or, what?

Without question, one or more of the above must be among the goals of those who are bent on putting the boondoggle into orbit. At least, such projects are consistent with goals of this sort.[12]

There are among us, however, those who believe in (1) the primacy and supremacy of an Infinite Consciousness, (2) the expansibility of the individual consciousness, and (3) the immortality of the individual human spirit. Acting on these assumptions, they reason with consistency that no objective can logically be superimposed on or stand in the way of the emergence of the individual human spirit; there should be no inhibition against the expansion of the individual human consciousness into as near a harmony as possible with Infinite Consciousness. Self-realization, that is, the realization of those creative potentialities peculiar to each personality, is the prime goal above which there can be no other.

Consistent with this individualistic philosophy of life is the belief that men are endowed by their Creator – not by the state or any collective – with the right to life, liberty, and the pursuit of happiness as each can find it. This is a spiritual concept. It is also political because it denies the state as the endower of rights. And, too, it is economic for, if a person has a right to life, it follows that he has a right to sustain life, the sustenance of life being the fruits of one's own labor.

The economic precept that consistently fits this way of life is willing exchange as distinguished from unwilling exchange – the market value of any good or service being what men will willingly exchange for said good or service. This theory is incompatible with the coercive practice of taking the

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[11] For an excellent explanation of why price and other economic controls are nothing but people control, see "Price Control Is People Control" by Dean Russell, p. 25 of this issue.

[12] For the most flagrant attempt to present collectivistic goals for this country, see *Goals for Americans*, being a Report of the President's Commission on National Goals. Prentice Hall, Inc., 1960. 372 pp.

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fruits of one's labor to satisfy someone else's compassionate instincts or someone else's interpretation of what is for one's own good or for someone else's joyous flights into space.[13] A moment's reflection will reveal that willing exchange is the application of the Golden Rule to economic affairs.

If we will take note of the ideas issuing from American pulpits prior to the writing of the Declaration of Independence; if we will reread Madison's account of our Constitutional Convention; and if we will again peruse *The Federalist Papers*, we will observe that the whole case for America was built around the rights of the individual, in short, justice. Among men pursuing such an end, the American miracle followed as a consequence. Attention to moral principles brought economic blessings in its wake. Inattention to moral principles must bring economic disaster.

We won our case in those days with the moral argument. It appears more than likely that we can save our case only with the moral argument. ◈

[13] This is not to deny but to assert that government's role is to perform the defensive function. Government, however, cannot be defender and predator at once. For the author's ideas as to how much and why government should be limited, see *Government: An Ideal Concept*. Irvington, N. Y.: Foundation for Economic Education, Inc., 149 pp. $1.50 paper; $2.00 cloth.

Potlatch, U.S.A.

MARCELINE BRADFIELD

CUSTOMS OF EXOTIC PEOPLES often strike us as strange. Imbued as we are with our own culture, it is difficult for us to visualize the significance of foreign practices to the group who hold them quite natural. This frequently results in our standing off uncomprehendingly and wondering to ourselves, "Now, why on earth would anyone want to do a thing like *that*?"

As an illustration, let us examine a ceremony of the Tlingit and Kwakiutl Indians, which was

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called the *potlatch*. The aboriginals of the Pacific Northwest were a hunting-gathering group united by linguistic similarity and clanship relations. They fished for salmon each spring, drying the catch to last till next season. Game animals were plentiful, and life was not an uninterrupted battle for survival. Indeed, there remained time for blanket-weaving, fur-dressing, carving, and the making of copper shields in surplus quantities. One might suppose that the Kwakiutls and Tlingits would have used this surplus wealth to create more wealth or leisure for themselves by trading with neighboring tribes. However, such was not the case. They created the abundance *merely to destroy it or give it away*!

The key to the Kwakiutl-Tlingit culture was prestige and social position. The clans expended great amounts of time and energy in amassing stores of wealth and food. Rivalry between clans and heads of clans was acute. At a certain appointed time a chief would invite another head of a clan to a *potlatch*. For a chief to refuse the invitation would have meant ridicule and loss of rank. The host presented the guests, the entire visiting clan, with great gifts of food and goods to humiliate them – the more extravagant the gifts, the more mordant the shame. Huge piles of blankets were burned one at a time. Pelt after pelt of furs was added to the flames. Vast sheaves of cedar bark were rendered to ashes. Stack upon stack of copper shields was shattered to the ground. The only recourse open to the vanquished guests was to return the invitation and outdo the giving and the destruction by the former host.

It does not require much thought to realize that, considering the bounty of nature was a rather fixed quantity, someone was bound to bankrupt his entire clan sooner or later, and, unable to give away more, go down in utter degradation.

"Now, why on earth would anyone want to do a thing like *that*?"

World-wide Give-away

Let us substitute more familiar terminology and techniques for Kwakiutl-Tlingit, and re-examine the description:

A ceremony of the Americans is called the *give-away*. The inhabitants of the U. S. A. are a highly-developed industrial society united by linguistic similarity and broad cultural ties. Both industry and agriculture are highly productive, so that life is not an uninterrupted battle for survival. Indeed, there remains time for production of farm produce, consumer goods, and luxury

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items in surplus quantities. One might suppose that the Americans would use this surplus wealth to create more wealth and leisure for themselves by trading with neighboring nations. Such is, in part, the case, but they also create the abundance *merely to destroy it or give it away*!

The key to the American culture is prestige and social position. The nation expends great amounts of time and energy in amassing stores of wealth and food. Rivalry between America and its allies on the one hand, and a Sino-Soviet group of allies on the other, is acute. At various times a chief of state from still another group of nations, known as underdeveloped nations, figuratively invites both rival groups to a give-away. For either to refuse the invitation would mean ridicule and loss of rank.

The difference between *potlatch* and give-away now becomes apparent: the "host" now becomes the recipient, while the "guests" each vie for the honor of presenting him with the most extravagant gifts. The Western clan presents the "host" with great gifts of food, money, and goods to humiliate the Eurasian clan – the more lavish the gift, the more mordant the shame. Huge piles of grain are allowed to rot one at a time. Ton after ton of butter is added to the decay. Vast sheaves of banknotes are poured down bottomless abysses of foreign aid. Stack upon stack of foreign loans is allowed to lapse. The Eurasian group gives the appearance of lavishing its aid upon the underdeveloped clan, too. Actually, the Soviets never really release their presents, but hold strings to them, concealed or unconcealed. Moreover, the Eastern clan has not been so well blessed by a propitious combination of geographic, demographic, and historical factors as to have superabundant goods and food. They do not, therefore, practice destruction of the fruits of their own labor. On the contrary, they are concerned with increasing the wealth of their own economic system.

When one give-away is completed (though there really is no *one* give-away – only an unending series), the "guests" do not return the invitations to the "host." They have only to progress down a revolving list of prospective "hosts," each time each "guest" trying to outprestige the other by winning favor from the "host" and humiliation for the rival. It never seems to dawn on the Western clan that their give-away often backfires, winning favor for the rival and humiliation for the "host." For, although the recipient himself requested aid, he

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suffers excruciating embarrassment from having accepted charity. Nothing wears so thin, so fast, as gratitude chafed by pride. Thus, the American clan, intending to encourage friendship with the underdeveloped nations, succeeds merely in creating enmity.

It does not require much thought to realize that, considering the bounty of economics is a rather fixed quantity, one chief is bound to bankrupt his entire clan sooner or later, and, unable to give away more, go down in utter degradation – especially when the rival chief is holding out half the deck up his sleeve in the game.

"Now, why on earth would anyone want to do a thing like *that*?"

Greatness Through Abundance

The Tlingits and Kwakiutls would understand: the man who makes beggars of himself and all his people is the greatest chief of all. The validity of this cultural concept is proven by the great renown which these Indians achieved. Hardly anyone outside of academic anthropology has ever heard of them!

The great nations of history did not succeed to that greatness by distributing their wealth or charring it to clouds of dust and smoke. Their greatness came from the ability to *accumulate wealth.* Any renowned empire – Inca, Egyptian, or Roman – became great by gathering up – hoarding, if you will – wealth. This fact was not lost upon our forefathers. They fought and struggled and saved painstakingly for wealth. And they built up a great nation.

Nor has this theory been lost upon the leaders of the Soviet Union and Communist China. They, too, are only fully aware that they must amass capital goods before they can reach and surpass us. That is the reason they keep tight rein on their "foreign aid," and why they encourage our big give-aways. They hope we will pass them – going in the wrong direction!

It is frequently next to impossible to detach ourselves from our own culture long enough to evaluate it objectively. But comparison of our theories and practices with those of others can serve to clarify persistently foggy perspectives. Or is it still obscure that we are abandoning our former ideals of greatness through abundance, and embracing the ridiculous practice of winning greatness by losing everything? ◈

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Downtown owners and merchants ignore the verdict of the market place when they advocate

THE URBAN RENEWAL FALLACY

JOHN C. SPARKS

WHEN A WOMAN picks up her shopping bag and heads for her favorite shopping area, she sets into motion an integral part of a very technical economic machine, the *free market place.* For the next hour or two she will make numerous economic decisions. She will select the stores in which she will shop; she will select the products she will buy; she will show preference for one brand over another. It is quite possible that an item she seeks will not be quite to her satisfaction, and she will not buy. One can speculate as to the many factors that influence her decisions. If she has no car, she will probably pick stores accessible by public transportation. Ease of access, walking distance, public transportation, and automobile traffic routes are important factors to any shopper. Other considerations include comparative prices, her budget, attractiveness of the store and products, the quality of service, friendliness of clerks, and a host of other points, some of which may be more aptly classified as whims. Nevertheless, each selection she makes, to buy or not to buy, is an economic decision affecting manufacturers, distributors, retailers, advertisers, realtors – the list of businesses is almost endless.

Persons, who are free to do so,

Mr. Sparks is a businessman serving as President of the Canton, Ohio, Chamber of Commerce when this article was written.

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daily make innumerable separate decisions involving exchanges of wealth. These exchanges we describe as the operation of the free market place. Their effect on the progress of mankind is tremendous. Selectivity has revealed a preference for the electric vacuum sweeper to the old hand-push carpet sweeper; selectivity has outmoded the buggy whip; it has relegated the candle to a decoration rather than its former use as a chief method of lighting. Selectivity results in a continuing upward pressure toward improved values of quality and service, unless artificially prevented or restricted by force of government.

As consumers, we benefit from the results of selectivity; it's fun to buy an automatic washer rather than the old washboard and tub. It's a pleasure to stop at a convenient and luxurious roadside motel after a hot day of driving rather than battle downtown traffic trying to find a hotel. Through such selectivity, those who provide the more desirable products and services are rewarded. But the manufacturers of the carpet sweepers, buggy whips, candles, washboards, and the owners of downtown hotels may not fully share the delight of the consumers because their own businesses may fail or be adversely affected by these changes.

The product or service popular twenty years ago may no longer be in demand today. All kinds of property face the hazard of changed values in the eyes of the buying public. Investors frequently spread their investments to hedge against those which may decline in value. An owner of a new home in an expanding suburb may well wonder about the value of his investment thirty years later. Owners of commercial real estate are constantly seeking information to enable them to make decisions consistent with the movement of real estate values up and down. A modern commercial building located strategically will normally command a higher rental than an older building in a less strategic location, although an ultramodern building located poorly may command less rent than an older building with a good location. Considerations are many in the market place and – if not influenced by governmental intervention – will very accurately reflect the sum total of the economic decisions of everyone.

How To Retard Progress

Unfortunately for mankind, however, intervention by government is brought into play all too frequently. The results range from the humorous to the tragic, from the awkward to the gro-

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tesque – and in every instance progress is pushed backward. Since every interventionist action is based upon enforcement of the unnatural, it is not surprising that the consequences are undesirable.

For example, governmental price support of a farm product, intended to prevent the price from falling when the supply is abundant, will bring about a greater supply than ever before – just the opposite of the intent. On the other hand, a ceiling price intended to enable more people to buy a certain product at a lower price, will drive that product out of production – and fewer rather than more will have the opportunity to buy it. Skilled tradesmen, encountering stiffened competition, will frequently use government to license (and restrict) entry of newcomers into their field. But if wages rise in that field, consumers and other less restricted enterprisers often find a way to eliminate or by-pass the licensed trade – and the licensed and "protected" tradesmen are threatened by obsolescence, rather than achieving greater security. Every interventionist or socialistic law works that way: rent control, price and wage controls, subsidies to farmers or industries – name it, and analyze it, and find the same bizarre and unpleasant results.

The Urban Renewal Program

A new kind of socialistic innovation has come into being within recent years called "urban renewal," which is now threatening to lull local governments and civic-minded citizens into embracing economic fallacy and corruption rather than standing for natural economic laws and moral principles.

The federal laws on urban renewal enable a city government to seize private homes and private business properties for the purpose of fulfilling the public good as determined by the political planners. Urban renewal is not necessarily slum clearance although parts of the planning program may include removal of some "blighted" residential areas. Urban renewal is the redesign of a whole section of a city by its planners (aided with ideas and finances from Washington), including removal of buildings not in harmony with the master plan.

Following the acceptance of the plan by the local and federal politicians, private property is acquired through the use of eminent domain, and either rebuilt or torn down. The condition of the property does not determine whether or not it can be razed. Perfectly good buildings in compliance with sanitation and safety requirements may be condemned and re-

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moved if the property does not fit into the scheme of the planners.

After the land is cleared, it is sold to private investors who agree to use it according to the specifications of the master plan.[1] The federal government picks up from two-thirds to three-fourths of the difference in the cost of buying the properties and the ultimate receipts from the sale of the land. This expense, borne partially by the local community (25 per cent to 33⅓ per cent) and the balance by the federal government, represents the bulk of the extremely wasteful cost of the federal Urban Renewal Program.

Selectivity Denied

This program should be rejected by every high-principled citizen of each city of our country on the basis that it is morally wrong. Unfortunately, the temptation to avail oneself of the funds of others, behind the mask of legal respectability, has been too strong for many communities to resist. Thus, the urban-renewal federal grant scheme is growing rapidly in popularity. Like other federal grants-in-aid schemes, it undermines self-reliance, it corrupts normally-sound individualistic champions of freedom, it encourages financial bankruptcy, it opens local communities to federal control, and it accomplishes all of these undesirable results through bribery of the local citizen with his own money. The federal urban renewal device has the further claim to infamy in that its supporters ignore completely the natural law of economics – *the selectivity of the market place!*

Each person selects certain things in preference to other things – including where to live, where to work, where to attend church, where to send children to school, and where to shop. At one time most families chose to live in the city. Undoubtedly, they were influenced by the lack of adequate private transportation and time required to travel to the city from the neighboring countryside or village. However, recent population figures reveal what we all have observed to be true: the city dwellers have been rapidly emigrating to the suburbs and countryside. More people now prefer to live outside the city – more open space, improved automobiles, whatever the reasons – and they individually have made the choice to do so. This is a choice having many economic effects on many segments of the lives and businesses of those left behind in the downtown section of the city.

[1] A Supreme Court decision of November 1954 declared constitutional the procedure of government condemning private property for other than public use.

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The Downtown Merchant's Challenge

Downtown retail stores find they are no longer selected as "the places" to shop by as many people as before, and it's not too difficult to understand why this change in preference has occurred. Attractive modern shopping centers in the outlying areas of the city are more easily accessible to the suburbanite. Many are beautifully designed and landscaped. Promotions by shopping center merchants often cause shopping to take on a gala festive air. *Parking is plentiful,* and, most importantly, provided and paid for by the private owners of these centers. Primarily due to location, these private-enterprising merchants are more attractive to the consumer than their downtown counterparts. As almost every successful private businessman can attest, success in business comes from efficiently providing a product or service and making it available where it attracts a sufficient number of customers to bring about a profit. The successful retailer must cause customers to select his place of business. If his location renders his store second choice or worse in the customer's evaluation, when he was once first, then he must recognize that economic selection has caused him to lose his "front-running" position just as surely as buggies, high button shoes, washboards, and candles also have lost position.

This does not mean that the downtown merchant must surrender without a struggle; he may adjust, as did those producers of years ago who intelligently changed their manufacturing equipment from high-button shoes to the new styles in demand by the "fickle" public. In recent years, not all cotton textile manufacturers stood by and cried while producers of synthetic fibers made huge inroads on their sales volumes. Those who intelligently met the challenge of the ever-changing market place developed new cotton-fiber treatments to compete in the wash-and-wear merchandise field.

"The market makes people rich or poor, determines who shall run the big plants and who shall scrub the floors, fixes how many people shall work in the copper mines and how many in the symphony orchestras. None of these decisions is made once and for all; they are revocable every day. The selective process never stops. It goes on adjusting the social apparatus of production to the changes in demand and supply. It reviews again and again its previous decisions and forces everybody to submit to a new examination of his case. There is no security and no such thing as a right to preserve

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any position acquired in the past."[2]

Consumers are coldly logical in their selection of where to shop to fit their convenience and wants, and the entrepreneur who sees the opportunity and fills the demand wins the day. But no business "victory" is forever – even for downtown merchants.

The decision cannot be ignored – the consumer has already made his choice today just as he made a different choice yesterday – and the outlying and suburban merchants are relegating the old conventional congested downtown shopping district into second place. Door-to-door bakery routes have encountered the same stiff competition from shopping centers. It is surprising that no one has proposed federal aid to bakery routes!

The Consumer Still Rules

It is not the purpose of this article to recommend solutions to the downtown property owners. Instead, it is to call attention to the fact that a new mode of suburban and outlying multi-residential and shopping-area living has come into its own. The consumer has spoken. Burying one's head in the sand does not change the situation, and attempts to "bring back" either a downtown commercial or residential area by artificial aid rather than natural selection may prove quite costly, especially to owners of downtown property.

If the possibilities of return for risk taking are good, investment funds will be available from those who are willing to take a chance. On the other hand, it is unlikely that voluntary investments in an uneconomical situation will be readily forthcoming. Those who seek federal urban-renewal aid undoubtedly recognize that voluntary investment will not be available for such downtown renewal. And, of course, no merchants are being restrained from remodeling or relocating, nor are they prevented from providing customer parking facilities. They are willing, however, to take advantage of improper, but legal, means to force persons who do not choose to invest, *to contribute without recourse* in order to bail out the skidding downtown businesses. Among those persons forced to contribute via the tax route to downtown redevelopment are the very outlying and suburban merchants who are gaining first place in the consumer's heart. Furthermore, the consumer himself, having elected to patronize the suburban merchant, must also con-

[2] Mises, Ludwig von. *Human Action.* New Haven: Yale University Press, 1949. p. 308.

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tribute via taxes to the downtown merchant and help subsidize him because that merchant, in effect, has continued to market in a "high-button shoes" manner and location.

The Crux of the Matter Still Lies in the Market Place

It is tempting to downtown owners to proclaim noble objectives to justify their request for federal aid. They wish to preserve the so-called "core" of the city. They hope to increase tax values of the "main" business section and surrounding area as promised by the planners. They become loquacious on behalf of civic pride. Little or no mention is made of the fact that the chief objective in the minds of the downtown owners and merchants is a *subsidy from funds taken from others.*

When buggy whips were on the decline as the automobile industry began to grow, the innovation of pearl handles on buggy whips (even if subsidized by government) would have done nothing to rescue the industry headed for obsolescence by the choices being registered in the market place. Neither will subsidized rejuvenation of downtown commercial and business property change the choice of the consumer. Nor will apartments, town houses, and other residential buildings constructed on land formerly occupied by slums or dilapidated apartments change the minds of those who prefer to live "farther out." Experience has already shown that many of the investors in new residential apartments erected on urban-renewal land are regretting the day they ignored the decision of the market place and risked their savings on such uneconomical endeavors.

In a series of articles for the *Cleveland Plain Dealer,* Eugene Segal reported on residential apartments built there in 1957 and since under the federal Urban Renewal Program: "The occupancy rate is too low for the projects to pay their own way. Most of them are delinquent in mortgage or tax payments. The owners are losing money. The projects have nothing that will persuade investors to build more. These are details you would not want showing when you are promoting urban renewal." The author went on to quote one of the owners, "We don't spend enough on maintenance. We can't because the money is not coming in. If we don't spend more, this will become a slum again."[3] Furthermore, the promise of increased tax values on the "renewed" land is almost certainly

[3] Segal, Eugene. "Housing Renewal Crisis," *Cleveland Plain Dealer.* April 30, May 1 and 2, 1961.

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not an attraction to potential investors.

City officials in Wink, Texas, are hoping businessmen in its downtown area will use the money (federal funds) they receive to put up new stores in place of those which will be torn down. It is recognized, however, that such hope will not likely become reality for "a dozen main street buildings are ramshackle frame structures already deserted by their owners *for lack of business.*"[4] In this case the difficulty of changing economic selectivity stems from declining reserves of oil in the vicinity. At one time, Wink had more than twelve times its population today. Then it was a boomtown.

There are many who make wrong decisions every day, and if such decisions are made by individuals with their own funds and property, no general harm is done. But when civic leaders and city officials combine to encourage waste of the funds of others through the federal Urban Renewal Program, harm is heaped upon all, including the subsidized merchants and the hopeful real estate developers. The subsidized merchants are given a palliative that will lull them into false security. The unsuspecting developers will flirt with business failure as people reconfirm their preferences to reside somewhere other than downtown or near the "heart of the city."

Communities that ignore the verdict of the free market place, and attempt to repeal the individual decisions and judgment of consumers and investors, are bound to reap ill results. No benefit will derive from embracing the fallacy of political urban renewal. ◈

[4] "Small Towns Scramble To Get Slum Removal Aid from Uncle Sam," *Wall Street Journal.* July 3, 1961 (Emphasis added).

IDEAS ON LIBERTY

Out of the Past

THE OTHER DAY we were reading Walt Whitman's *Leaves of Grass* again and were struck by the timeless quality of a short poem he wrote "To the States." It seems to express one of those eternal truths about government and tyranny. And while we watch the Federal government reaching out to seize or assume more and more power over the states to destroy their independence, it might be worth repeating:

"To the states, or any one of them, or any city of the states,
resist much, obey little,
Once unquestioning obedience, once fully enslaved,
Once fully enslaved, no nation, state, city of this earth, ever afterward resumes its liberty."

From the *Indianapolis Star,* July 13, 1961

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Price Control Is People Control

or, REMEMBER THE BEAVER

DEAN RUSSELL

PERHAPS you recall the fable of the scorpion who asked the beaver to carry him across a lake. The beaver declined the request with this deduction: "If I let you get on my back, you'll sting me and paralyze me and cause me to drown."

But the scorpion out-deduced him with this rejoinder: "I can't swim. Thus if I sting you while we are in the lake, I'll drown too. Obviously I wouldn't do anything to cause that."

The beaver could find no fault in that logic. So, being a kind-hearted fellow, he invited the scorpion aboard and set out across the lake. Right in the middle of it, the scorpion stung the beaver and paralyzed him.

As they sank together to the bottom of the water, the beaver reproachfully pointed out to the scorpion that *both* of them would now drown. "Why did you sting me?" he asked.

"I couldn't help it," tearfully replied the scorpion. "It's my nature."

Fables, of course, contain a moral that can be applied to human affairs. This one pertains to several of our current problems. For example, the *nature* of price controls is people control. A quart of milk or an aspirin obviously is not concerned about the price tag it carries. Prices are of concern only to human beings. And the only thing that can be controlled by government in this process of minimum and maximum prices is people.

The nature of the operation is

Dr. Russell is Professor of Economics at Rockford College and Chairman of the Department of Economics and Business Administration. This article is from his weekly editorial column in the Sunday edition of the *Rockford* [Illinois] *Morning Star*, July 23, 1961.

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this: Persons who exercise the police powers of government use those powers to control the people who produce milk, distribute milk, and buy milk. The price of drugs is never controlled by government; the controls apply only to the persons who produce, sell, and use the drugs. When the government enforces a minimum wage, it is persons, not things, that the officials watch and control.

The person who favors rent control wants the police powers used to control individuals who own houses for rent, and families who wish to live in such houses. Purely and simply, he favors controlling people and forcing them to do what *he* wants them to do.

But when such a person is flushed out from behind his euphemistic and comfortable word-shield, he is usually honestly astounded that anyone could possibly believe that he favors people control. Try it sometime. You will invariably get a response somewhat as follows: "I am *opposed* to controlling people. In fact, I support all sorts of organizations and causes to give people more freedom. True enough, I do believe that the government should control certain *prices* for the benefit of all; but control *people* – never! Now stop spouting this nonsense about people control. There is a limit to my patience."

And so it goes. Actually, when you stop and think about it, no government can ever really support a price. Prices don't give a hang about supports; it's not their nature. The nature of all governmental schemes to "support prices" is this: Some people who control the police powers of government use them to take money from other people who have earned it, and to give it to still other people who have not earned it. That's all it is. Calling it by another name cannot change its nature, for better or for worse.

Why Not Come Out with It?

Why do persons object to coming right out with it and saying, "Of course I'm in favor of people control. I don't need you to tell me that it's only people, not inanimate objects or ideas, that can be controlled. But don't forget that I am doing it for their own good. In various of these vital economic areas, I am convinced that I know what is best for them and for us all."

While I would disagree with that candid person, I could still admire him after a fashion. At least he would have the courage of his convictions. For example, Robin Hood was a robber in every sense of the word, but at least he had more personal courage than do the despicable characters who sneak up on their victims and sand-bag them from behind.

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It's the Nature of the Beast

Perhaps the reason for our preference for the euphemistic "price controls," rather than the realistic "people controls," lies deep in our own natures. All of us seem instinctively to want to help our fellowmen. But we observe that there are so many of them who want help of various sorts, and that our own personal resources are so limited. But by voting to have the government do it, we can satisify both our charitable instincts and our sense of fair play. Also, that easy procedure has several other fringe benefits. When we *vote* to help others, we are thereby fulfilling our patriotic duty as good citizens to participate in the affairs of government. In addition, this procedure doesn't require much personal effort. Also, we are usually promised that somebody else will have to pay the cost.

The next time you hear a politician or a neighbor advocating price supports or rent control or some similar subsidy, ask him why he favors people control, and forcing other peaceful persons to do what he wants them to do, and taking money from people who have earned it and giving it to others who haven't.

At that point, however, you had better duck. For the nature of the ambitious politician and the well-intentioned do-gooder is to consider only the "fine objectives" of their plans and to ignore completely the shoddy means used to enforce them. They won't appreciate your calling this to their attention. ◈

IDEAS ON LIBERTY

The Stimulus of Necessity

DANIEL FROHMAN once made an offer to George Bernard Shaw to come to America, guaranteeing him an annual salary, with the proviso that he should write one play a year for his theatrical company, and retain for himself the profits of any other work.

To this the astute playwright replied, characteristically, that the offer of such a financial certainty would so overwhelm him that he would lose his inspiration. He preferred to work in England, for less money, but under the stimulus of necessity.

Submitted by P. K. THOMAJAN

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IN *Through the Looking Glass*, Alice discovered that words can be rather slippery things:

"When *I* use a word," Humpty Dumpty said in rather a scornful tone, "it means just what I choose it to mean—neither more nor less."

"The question is," said Alice, "whether you *can* make words mean different things."

Some readers recently were as startled as Alice on seeing how familiar words were used by the National Rural Electric Cooperative Association in a full-page advertisement given nationwide circulation. The ad pictures the skyrocketing growth of rural electric systems as an outstanding example of "free enterprise." It asserts that "4¾ million people own rural electrics – more than any other business," more than A. T. & T.'s 1,900,000 shareholders, General Motors' 746,803, and Standard Oil of New Jersey's 526,610.

The thousand or so rural electric systems under discussion are "nonprofit groups – usually cooperatives." They have a lot of

From the *Monthly Letter* of the First National City Bank of New York, August 1961.
Illustration: A. Devaney, Inc., N. Y.

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shareholders. Unlike corporations organized for profit, they typically require a membership fee – the purchase of one share – as a condition for providing service; thus, 4¾ million is more genuinely descriptive of the aggregate number of customers than of the spread of ownership. The shares are of little investment value for they pay no dividends *per se*. The "profit" for the shareholder lies in access to power below its true cost. The cooperatives spare themselves from income taxes by avoiding realization of profits in the ordinary, legal sense. Further, the Rural Electrification Administration, supported out of the Federal Treasury, gives them a pipeline to the taxes paid by everybody else, including their competitors. The NRECA is too modest in toting up the number of owners of the "rural electrics"; a hundred million taxpayers have investments in them, involuntary and unprofitable but nevertheless real.

Free Enterprise?

Last year the Congressional Joint Economic Committee published a report on "Subsidy and Subsidylike Programs of the U. S. Government." This document does not develop a picture of the electric cooperatives as "free enterprise." It does not find the capital contributions of the beneficiaries important enough to mention. The REA, included in a chapter on "Agricultural Subsidy Programs," is described as extending loans to cover *the full cost* of constructing power lines and other facilities:

> The Rural Electrification Administration makes loans for the purpose of financing electric systems and telephone service to rural areas. By such loans it has made possible the extension of electric power and telephone service to many farms at an earlier date and at lower cost than would otherwise have been possible. In the field of rural electrification, which the REA has undertaken since 1935, the REA makes loans to qualified borrowers, with preference to nonprofit and cooperative associations and to public bodies.
>
> Loans cover the full cost of constructing powerlines and other facilities to serve persons in rural areas who are without central station electric service. They bear 2 per cent interest and are repaid over a maximum period of 35 years. . . .

The report gave an estimate of REA loans less repayments as of June 30, 1961: $4.4 billion loans for electric service and beyond $700 million for telephones. The total rises every year and will continue to do so as the cooperatives expand outside farm areas, take on commercial and industrial customers, build generat-

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ing capacity, and extend telephone services. Against these aggregates of $4 to $5 billion, the "ownership" represented in membership fees of beneficiaries—at $5 or so apiece—is a drop in the bucket. It takes care of less than one per cent of the total investment.

Interest Rate Subsidy

It is true that the cooperatives pay interest on borrowed money. But there is a continuing subsidy in the fact that the REA lends at 2 per cent while the Treasury has to pay an average of 3 per cent on the public debt. In the original Rural Electrification Act of 1936, the intent of Congress was that "all such loans . . . shall bear interest at a rate equal to the average rate of interest payable by the United States of America on its obligations, having a maturity of ten or more years . . . ." In 1944, when the Treasury was paying an average of 1.93 per cent on the public debt, the Congress fixed the REA lending rate at 2 per cent.

In his budget message of January 1959, President Eisenhower proposed that: "The present statutory interest rate of 2 per cent for loans made by the Rural Electrification Administration be replaced by a rate which will cover the current cost to the Treasury of equivalent-term borrowing and other reasonable costs." On this formula the REA would be charging upwards of 4 per cent. That is what the Treasury would have to pay today on long-term bond issues.

Mr. Eisenhower's plan drew a barrage of criticism and was never adopted. Yet the principle he set out seems reasonable:

> Ideally, in a federally sponsored and financed undertaking, it should be possible for the government to step progressively aside as they reach the stage of self-sufficiency which enables them to move forward under their own sound management, ownership, and financing.

Consolidated income statements of investor-owned electric power companies and REA cooperatives make it possible to figure the subsidy elements. The cooperatives pay 3 per cent of their revenues in taxes instead of 24 per cent for the private utilities and 2 per cent on borrowed money instead of 4½ to 5 per cent. In 1959, when their operating revenues were $618 million, the REA cooperatives would have needed $164 million more revenues to raise their tax payments to the private utility average, and perhaps $50 million besides if they had been required to meet the market on money costs. In other words, the cooperatives might have had to raise their rates around 35 per cent.

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The flourishing development of the rural electric systems raises the question whether they are not now strong and enterprising enough to take their places as full-fledged, dues-paying members of the corporate society. Through subsidies and tax exemptions, we create powerful incentives for the establishment and growth of nonprofit organizations. But the hard fact is that the vast federal government machinery demands a huge flow of taxable income and profits. It would grind to a halt, or fling itself apart in wild inflation, if we all went cooperative.

"Living Backwards"

The ad treats the 4¾ million as participants in one single business and says that "a finer example of private enterprise . . . would be hard to find." The business in question must be the REA of which the "rural electrics" are common dependents or subsidiaries. It is, indeed, a topsy-turvy world when the REA system gets identified as private enterprise.

Pretty soon, as Humpty Dumpty might have been moved to mention, we may begin calling the private utilities public enterprises. After all, they *are* public utilities, serving everybody in the whole land. And they do turn the greater part of their profits over to the government.

Rich people, meanwhile, can come to be known as public servants. After all, they do spend most of their time working for the government.

Maybe we're suffering from the effects of "living backwards." As the White Queen once told Alice, "It always makes one a little giddy at first." ◈

IDEAS ON LIBERTY

Growth and Government

THE PART that government can constructively play in promoting the growth process is strictly limited but the part it can play in preventing growth is virtually unlimited. It can too easily impair or destroy the growth mechanism. It can regulate or compel the performance of prescribed acts; but it cannot by command render people enterprising and creative in the development of the tools, products, and markets that spell progress. Their money can be taken in taxes and spent by political prescription, but if spent on projects which they could but would not themselves voluntarily undertake, then this must impede rather than speed true economic growth.

Annual Report 1960, United States Steel Corporation

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Photo by J. D. Hammond

DR. LUDWIG VON MISES

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THE SIGNIFICANT ROLE OF

Ludwig von Mises

LAWRENCE FERTIG

ONE DAY several years ago I attended a dinner party at the home of a friend who is a knowledgeable defender of private capitalism and one of the best-known anti-Communists in the United States. This man had been a Socialist a generation ago. Also attending this party was Dr. Mises. Toward the end of the evening our host described how Mises had changed his life. It seems that he had come upon Mises' *Socialism* one evening and sat up all night to read it. He was completely shaken by this experience, he said, and from that point on he re-evaluated his socialist concepts and finally repudiated them. He described in glowing terms the impact of Mises' *Socialism* upon his maturing mind, and he attributed the complete change of his intellectual life to the power and logic of Mises' concepts.

Mr. Fertig is economic columnist for the *New York World-Telegram and Sun* and other Scripps-Howard newspapers. He is author of the forthcoming book, *Prosperity through Freedom.*

How many minds have been similarly influenced it is not possible to say. But there is no question that the clarity and vigor of Mises' thinking has had a powerful influence on our times. For he is a scholar's scholar. The force of his ideas has been multiplied by the many able young economists he has trained and influenced. They have gone forth into public service and the academic world to spread the gospel of the free market and freedom.

It is not given to many people to have such influence. While it is true that the world in the last generation has moved appreciably toward the collectivist state, it is depressing to think how much further we might have gone had there not stood a valiant guard to lead at least some intellectuals in the direction of the free society. And foremost of this small but valiant group who, despite great odds, have continued to mold the think-

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ing of many intellectuals in the Western world undoubtedly is Ludwig von Mises.

In his prophetic essay published in 1949, Friedrich Hayek defined the intellectual in a very interesting way. "The term intellectuals," he said, "does not at once convey a true picture of the large class to which we refer, and the fact that we have no better name by which to describe what we have called the second-hand dealers in ideas is not the least of the reasons why their power is not better understood... What qualifies him (the intellectual) for his job is the wide range of subjects on which he can readily talk and write, and a position or habits through which he becomes acquainted with new ideas sooner than those to whom he addresses himself."

This is a succinct and quite accurate description of intellectuals – "second-hand dealers in ideas." In other words, they are not the seminal thinkers, nor are they usually great scholars, but they are people in various walks of life who latch on to important ideas of famous scholars and retail those ideas to the circle in which they are influential, large or small. Among the teachers, journalists, authors, and others with whom I am acquainted, I can testify that Mises is the kind of original thinker who molds the concepts of many intellectuals in ways in which they themselves are often not aware. The fact that his following is not legion is, of course, disturbing to those who are fighting for individual freedom. But it is well to remember that the leaders in the battle for free enterprise and freedom would not be so effective if they had not been inspired and taught by Mises. For they speak his ideas even though they modify and popularize his concepts.

Champion of the Free Market

Mises' monumental work, *Human Action,* is a case in point. Certainly it is not widely read – in terms of a popular best seller; nevertheless, it daily influences the minds of countless students, writers, and teachers. When this book was published in 1949, I devoted a column to reviewing it for the public.

"It is about time," I said, "that some truly great advocate of liberal capitalism re-stated for our time the case of the free market and the sovereignty of the consumer, as opposed to the philosophy of government intervention and the sovereignty of the bureaucrat.

"But there is need for a much more comprehensive work which would give intellectuals of traditional liberal persuasion a fountainhead for their gospel – the kind of inspiration and argument sup-

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plied to the opposing school by such writers as Karl Marx, Thorstein Veblen, and John Maynard Keynes. The need for such a work has been filled by Ludwig von Mises, one of the world's truly great economists. His book is entitled *Human Action,* which indicates the scope of his thinking.

"Economic man as such is pure fiction. Man is a whole being and all his actions and choices are interrelated. A definitive work of economics, therefore, can well be called *Human Action.*

"The planned economy is Dr. Mises' target. He says, *'The alternative is not plan or no plan. The question is: whose plan? Should each member of society plan for himself or should a benevolent government alone plan for them all?'* And Mises is not afraid to use the words laissez-faire. *'Laissez-faire,'* he says, *'means let each individual choose how he individually wants to cooperate in the social division of labor – let the consumer determine what the entrepreneurs should produce.'*

"The interventionist is always looking for stability. To bring about this impossible state he must force the public into a rigid economic mold of his own making. As a traditional liberal Dr. Mises' objective is a flexible economic system, which is the only kind of system that can exist in a world of action and change. This may be a book for scholars but it will undoubtedly have a profound effect upon public opinion."

A Man of Influence

In the long run *Human Action, Socialism, The Theory of Money and Credit,* and Mises' other great books continue to affect the minds of men and thus – even if imperceptibly – to have their effects upon events. But in judging Mises' influence, one should not underestimate the power of his person. His personality is unique, as those who have listened to him well know. His seminar at New York University is a rallying point for the faithful of the libertarian cause who want to engage in serious study. Mises' ability to clarify an abstruse subject is truly remarkable. His lectures are not only scholarly, but lively, which is an unusual combination. Another very important function which Mises performs is that of consultant and guide to those of us who are engaged in the daily battle. As an economic journalist whose function it is to interpret and comment upon ideas and events which are shaping the world of our time, I can bear witness to this.

It is essential and inspiring for us to have ready access to that inexhaustible mine of lore, philoso-

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phy, and theory – the mind of Ludwig Mises. His comments upon some passing event, or upon a problem of national significance, never seem to follow the beaten path. Always he brings to bear upon a subject a wealth of historical information and an insight that is the very heart of wisdom. To those of us who write upon economic and political subjects his suggestions and counsel – which always seem to be available without limit – are invaluable.

It is Mises' function to state the truth about the market economy without quibble and without qualification. Many authors who write for a more popular field may, on occasion, find it advisable to qualify a blunt truth, or to express their ideas with tenderness for the inconsistencies, illogic, and foibles of their audience. But not Mises. He states his principles in clear-cut fashion without regard for anything but the truth itself as he sees it. This is of high importance in guiding those who need some star by which to set their compass.

A Guiding Light to Clear-cut Thinking

If one is guided by the principles of the market economy as expounded by Mises, there is no excuse for fuzziness in thinking about the validity of any new economic proposal. These principles permit the writer who is a student of Mises to view with a clear and discerning eye every new utopian proposal for improving the world. Thus he can avoid falling into the many traps which are hidden in the new schemes.

I will mention here only one of many such proposals which seem to be gaining ground not only in the United States but in Britain and other countries as well. It is the theory that when an individual acts, he must ponder not only his own self-interest but the public interest as well. He must go about his business with two hats, so to speak. He is supposed to wear one hat when he acts as a private individual who decides what is best for himself. He is supposed to remove this particular hat and put on another one when he acts as a self-appointed public functionary, deciding what is best for the country and for humanity. Apparently he is to wear each hat successively, never permitting his own self-interest to interfere with the course of action which he finally decides to be in the public interest.

According to this theory, when a producer of goods sets his price he must decide not only what is good for him but what is good for everybody else. When a labor union leader approaches the employer he

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must frequently say, "I can get ten cents an hour more for my men, but it is not in the public interest to take it." When an investor decides what to do with his money he must think not only of interest rates and dividends but also of what is in the national interest.

This is the new philosophy which is gaining ground here and abroad. It is unworkable, it runs contrary to human nature, it distorts market factors, and it is completely utopian. Its only reason for existence is the attempt to relieve government from the evil effects of bad laws which disturb the market.

In Britain, the London *Economist* recently recommended that the Treasury publish a statistic concerning "the amount of wage increases that would be likely to topple the economy off-course . . . If these estimates were published," said the *Economist,* "and if they found their way into the headlines . . . public pressure against inflation could be built up at just the right time." The editorial then goes on to say that the Treasury should publish "the safe permissable limit for increases in wage rates." Thus the government creates inflation of the money supply in the first place and then tries to regiment the economy so that no individual or group would take advantage of all the inflationary money which is lying around.

A similar proposal was made by Henry C. Wallich of Yale University, in a letter to the *New York Times.* He suggests that wage increases be limited by consensus to 2 per cent a year. He identified this figure as the long-range historical rate of productivity gain. It may be asked why Dr. Wallich is searching around for a new formula to supplant the result which the market would give. Plainly the answer is that labor union power is so great that temporarily it can get any wage rate it insists upon. But this uneconomic wage rate eventually is the cause of recession and unemployment, and at that point political pressure causes the federal government to inflate the money supply and to create deficits which are financed by the banking system. The way to cure this situation is to re-establish market conditions, not to impose some rigid formula which will make bad matters worse.

But perhaps the most curious suggestion of all was recently made by an economist who is considered rather conservative in some quarters. He is David Rockefeller, President of the Chase Manhattan Bank, one of the largest in the United States. When there was a great outflow of

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American dollars in the latter part of 1960 and the beginning of 1961, Mr. Rockefeller suggested that American corporations holding large funds for investment should not seek the highest return for their funds in international markets. He said, "It would seem wise and responsible – in a time such as the recent past, when the national interest clearly is involved – to exercise restraints in responding to a differential in foreign interest rates, particularly when the gains are incidental to a company's main business, and loom relatively small on the income statement. Here, as in so many areas, the business community has an opportunity, even an obligation, to lead the nation in a rational pattern of behavior, consistent with our growing role in the world."

But in all of the cases cited above did not Mr. Rockefeller, Professor Wallich, and the Editor of the London *Economist* really beg the question? Did they not assume that they really knew what is in the public interest? In the case of investing funds, one might well assert that the outflow of dollars seeking higher interest returns in other countries is definitely in the public interest, and not against it. It is the exodus of dollars which alerts the United States to the importance of curbing its inflationary policies. When public policy becomes even slightly anti-inflationary, investors retain their funds in the United States and do not seek to place them abroad. This pressure upon the government for some restraint upon inflation is certainly beneficial to the public. Yet in this particular instance it was asserted that the individual knew very well that it was in the public interest not to send his money abroad.

The lesson to be learned in all these cases is the lesson that Mises has devoted his life to teaching. There is no substitute for the free market. What is "right" and what is "wrong" is to be determined by each individual, weighing his decisions in a climate of freedom. The world does not seem to have learned this lesson well. But concepts and intellectual trends do change over a long period of time. There is no reason why the present trend toward collectivism may not be altered in another generation. In this event there will undoubtedly be many monuments dedicated to the unswerving defender of the market system whose scholarship, wisdom, courage, and integrity have been such a shining example for more than half a century. ◈

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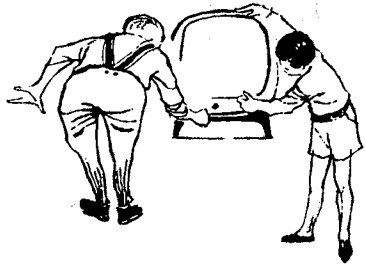


FISCAL VISTA

or — FUNCTIONAL FINANCE ON THE NEW FRONTIER

When neon lights began to flash
Around the city square,
Old Kasper pulled the curtains tight
And settled in his chair,
While Peterkin and Wilhelmine
Turned on the metaphoric screen.

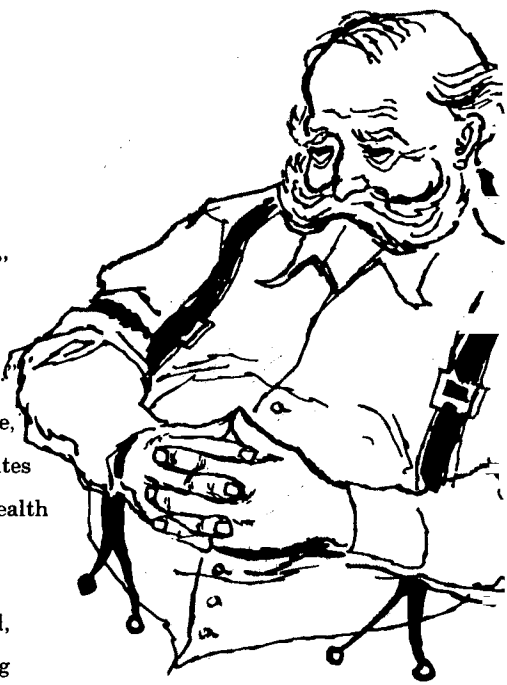
They saw a monster come and stand
Upon the Senate floor,
And one of far more dreadful mien
Outside the open door;
While other monsters bigger still
Were coming slowly up the hill.

"Now tell us what those monsters are!"
The little children cried.
"They're coming Federal Deficits,"
Old Kaspar soon replied.
"The one inside the Chamber here
Will work throughout the current year."

"What sort of work," asked Wilhelmine,
"Can such a monster do?"
"They're skilled at stealing widows' mites
And clipping coinage, too.
They're trained to work by fraud or stealth
At confiscating private wealth."

"Do folks approve of work like that?"
Cried little Peterkin.
"Old-fashioned people," Kaspar sighed,
"Would call it deadly sin;
But Planners say there's nothing wrong
In ways that keep the nation strong."

"In days gone by," said Kaspar then,
"We cherished private wealth,
In days before we learned the key
To economic health —
Before we saw Liquidity Traps
Or heard about Production Gaps."



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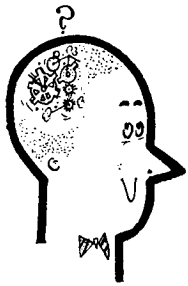

The Inpert Situation

NEIL M. CLARK

THIS IS A CALL FOR INPERTS. In a brief editorial in *The Saturday Evening Post* some time ago I outlined the inpert situation, pointing out that we have just about all the experts we can use in this country, but there is a serious shortage of inperts.

An inpert, unlike an expert, hasn't been tamed and trained and taught how it must be done.

In the editorial I recalled the young engineering expert Thomas Edison once hired, whose first assignment was to determine the cubic content of a light bulb. After hours of careful measurement and calculation he proudly presented an answer. But Edison shook his head. Knocking a tiny hole in the end of the bulb, the inventor filled it with water, poured the water in a measuring cup, and in two minutes had proved that the expert's answer was 10 per cent off.

An inpert named John Dunlop, a Scottish veterinarian, devised a pneumatic tire for his son's bicycle. Experts saw nothing in the idea for years and wrote lengthy articles in engineering journals explaining why the pneumatic tire wouldn't work. Then another inpert who didn't know any better put the things on his bicycle and out-raced the world's champion.

One serious fact about inperts is the difficulty of turning them out in large quantities. It's easy to train an expert. But an inpert sort of grows.

This wild colt, the inpert, harboring ideas that no tailor has cut to size for him, unawed by dogmatic "authority" from whatever source, whether persons in high position, social taboo, academy, or learned book; untrained, if "training" means rote learning

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Mr. Clark is well-known for his free-lance writing in *The American Magazine, The Saturday Evening Post, Nation's Business,* and many other magazines. This article, and one to follow next month on inperts as workers in an industrial society, are from a book manuscript that has grown out of Mr. Clark's editorial in *The Saturday Evening Post* of December 26, 1959.

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and unquestioning acceptance of what others already "know"; irreverent, if "reverence" means kowtowing to self-appointed stuffed shirts; unpatriotic, if "patriotism" means placing one's business, town, state, or nation selfishly ahead of mankind – the inpert seems certain to hold a good betting hand in the poker game of progress from now on. The individual with a view of his own is coming back or coming into favor. The dynamism of many ideas which the world has not yet had the nerve to try, or perhaps hasn't had the brains to think of, will come not from quietly "obedient" banner-following hordes of faceless organization men in gray flannel suits, even if they have Ph.D. degrees. Believable reports from Russia indicate they will not come from a society predominantly occupied with industrial expansion, but requiring the bureaucratic scrutiny of all ideas through four stages right up to the Central Committee of the Communist Party. The creative ideas will come, rather, from free-roving, far-roaming minds that weigh evidence fearlessly, accept frontiers as gates to be crashed, and dwell in communities where gates can be crashed with impunity.

Probably no one needs to be reminded at this late date that the world in our day has moved head first into an era of explosive change. But there are conflicting views as to where change is taking us, and what the future holds for the common human being. Familiar guides used in the past by prophets tend to be less useful now. Two schools of thought, at opposite poles, have emerged.

A Centrally-Directed Society

The theory most widely exploited since we have gained knowledge of what is called the frightening population explosion, and of how to crack the atom and invade space, has been enunciated in books such as Orwell's *1984* and Huxley's *Brave New World Revisited*: namely, that we are inevitably moving away from individual freedom and toward a robot-like form of existence in a centrally-directed society, where minds are conditioned by so-called leaders using thought-control methods and even subtle chemicals, and the mass of individuals will increasingly come under the guidance of an oligarchy of trained and willful brains. Somebody – somebody else – will call the shots for most of us, it's said: "experts."

Perhaps this is a natural way to figure, since something of the sort has happened so often in the past. Time after time, from the days of shamans and devil priests till almost yesterday, a few who felt

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sure they had seen the light and had been shown the right way, seized the public platform, assumed authority, held the floor against all comers, and demanded general submission to their views. Insofar as they were able, they made sure their way prevailed. Time and again such leadership, however vigorous at first, has had hardening of the arteries, has lost itself in the jungle of dogmas, has faltered, failed, been rebelled against at last by a few bold ones, and overthrown.

The Role of Leadership

Freedom for common human beings to think and act as they decide for themselves, so long as they do not injure others, has approached at a very halting and uncertain pace down through the centuries; but it seems to some to be fully proved by now that no one brain or gathering of brains, however brilliant, is adequate for the great job of moving society and civilization steadily forward to improved and attainable goals. Efforts in the past to impose fixed procedures and pre-planned goals of progress have been futile, self-defeating, and in the end tragic. It seems certain that they will be so whenever they are tried in the future — as they certainly will be tried again and again and again. The jobs to be done today, if we are to have the progress hoped for, seem to be just too big, too complex, the goals too diverse, for any process limited to the activities of a few and guided by them with authority.

The emergent theory fighting for acceptance and winning it, is that the hope for continued progress lies not in submerging the alert individual, the poor dumb inpert, but in making it increasingly possible for him to be his own leader in an orderly world in which he has a proper shot at making the rules. Full realization is certainly a long way off. But the logic of history indicates that this is the trend the world has been slowly taking, and the way which offers most hope for a greater society, a society which can operate at increasingly higher levels because the majority of individuals composing it are higher-level folks.

Leaders there will always be. But the function of leadership in the future, it appears, may be subtly different. Leaders may rather be looked upon as counselors, guides, standard-bearers whose opinions are offered and sought tentatively, their words being recognized as opinions and not as "last words" on the subject: opinions gained by contemplation, experience, trial, failure and success, and worthy of careful consideration. But such leaders them-

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selves, at the best, will be content to say:

"This is the light I have had. It may help toward your light. You decide."

The day of the leader who assumed authority, and used force if necessary to bend others to his way of thinking and doing, is of the past or passing: provided, that is, we are truly moving into an age of genuine progress. Authoritarianism in any field, "expertism" of an earlier stamp, end-of-the-roadism (meaning, "We have discovered truth once and for all and this is it!"), has always been the severest brake on progress. The way of the future leader will be to concern himself less with doing things for people and more with doing those things which enable people to do things for themselves.

It may be hard for many of us, accustomed as we are to accepting the say-so of "big brains," to receive the fact that not groups, but individuals, sometimes very humble individuals, originate change and progress; that any great new idea occurs first of all in just one human brain; that innovation at the outset is strictly an individual product and that the number of brains capable of creativity is not limited in number but is vastly greater than has been commonly thought; and that the release of latent human creativity from its age-long bonds at low performance levels, can accomplish more miracles than releasing the energy in atoms. An eminent philosopher and teacher, Professor Raphael Demos of Harvard University, has pointed out that the opportunity to form one's own personality "is the greatest gift that society can provide to a human being." It may also be the greatest attribute that society can encourage for its own improvement.

Sources of Invention

Inventiveness breeds progress and, like gold, is where you find it. It is not the exclusive prerogative of a chosen few who have received special training. No teachers, we shall see, have yet come up with a sure method for creating creativeness in human brains. Training may do something to bring out the knack—may do much. But the faculty occurs widely and often turns out to be strongest and least inhibited in quite unexpected places. Only too often, however, it is bashfully modest, unsure of its welcome, unwilling to speak up. Unless given encouragement, it may hide its light and mutter to itself in corners.

A civilization which throughout history has been largely dedicated to traditional ways of doing things, and has been allergic to

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change, was slow to recognize and value any bright ideas that common human beings might have, and usually was not kind to the individual inventor. The man who invented the wheel was probably not regarded as a benefactor by people who knew him: more likely, he was kicked out of the clan as a red radical. Anyone who did an accustomed thing in an unaccustomed way was likely to be considered a "queer," a social heretic and misfit, a disturber-of-things-as-they-comfortably-were, to be laughed at if he were not too troublesome, to be shunned and ridiculed by sensible people, and if, like Galileo, he proved a threat to established scientific thought, or like Servetus, a threat to theocrats, he must be made to recant or be burned at the stake. The attitude is still with us far too much, although now that the world, by and large, is coming to accept rapid change as inevitable and desirable, it surely is high time for the emergence of a new and more favorable attitude toward individual creators, whence cometh all improvement.

This can probably come about only slowly and with pain and difficulty. But as it comes, it will spread and find its way into every sector of our lives and thinking. A characteristic of a better tomorrow is that *the individual will make up his own mind.* He will not tolerate having it made up for him by anyone in authority, whether in government, laboratory, school, church, or place of work. The result will not be anarchy, as might be imagined, but the spread of enlightenment by means of the increasing numbers of people having light, determined to be themselves in all departments of their lives, not robots and not facsimiles. Progress and enlightenment can be speeded immeasurably.

It is my conviction that the self-propelled thinking inpert who doesn't swallow all he hears and reads, even if I say it, affords the future its brightest promise, quantitatively and qualitatively. ◈

IDEAS ON LIBERTY

David Starr Jordan

IF THE MATTER is important and you are sure of your ground, never fear to be in the minority. The world turns aside to let any man pass who knows where he is going.

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A myth examined:

You Can't Turn Back THE CLOCK

CLARENCE B. CARSON

PLATFORMS or programs which acknowledge an indebtedness to the ideals, principles, or social structures and experiences of the past are likely to evoke the protest: "You can't turn back the clock!" The "conservative" supporters of such policies are declared impractical.

Charles Rolo, in a recent review in *Atlantic*, refers to "brainless reactionaries who pine, fruitlessly, for a return to old-fashioned, laissez-faire capitalism." Clinton Rossiter, in a letter to *Time*, denies the rubric Conservative to Barry Goldwater because of his "refusal to accept social and economic changes that have been firmly established in the American way of life, his announced intention of rolling back the course of history to (at the very latest) 1930 . . . ."

Is it fact or myth that the past is of no value in judging the soundness of present ideas and programs?

Naturally, if a person is unaware that his own beliefs are of mythological character, he will think that propositions derived from his beliefs are facts. Those who declare that you cannot restore conditions or revive ideas from the past are doing just that.

They assume that history (the past) proves the futility of looking back – that successful changes result from acceptance of, and adjustment to, existing conditions. But does the historical record itself warrant such assumptions? Did Charlemagne accept the existing chaos and disorder in Western Europe and make the necessary adjustments to it, or did he attempt to restore order and security by looking back to the model of Rome? Did the Italian Renaissance result from an acceptance of a then decadent me-

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dieval culture, or was it spurred by an attempt to reincarnate the best of Greece and Rome? Does Mozart's thrilling music indicate a simple adjustment to Newton's "New Cosmology," or were both Newton's ideas and Mozart's music informed by the classical ideas of order, proportion, harmony, and regularity? There is no adequate way to answer these questions without exposing the flimsy and unsubstantial historical basis for the belief that looking backward has no value.

The Myth of Progress

The view that the past cannot be recovered with profit rests upon the most extensive myth created in the modern era. The origin of most myths is obscure; not so this one. It came into being in an era when men prided themselves upon their enlightened awareness of their assumptions. As a myth, the view that a return to the past is retrogressive can be traced directly to the evolutionary theories stemming from Darwinism. Dealing with the myth simply as an idea, it is the idea of progress. The idea of progress, however, was not so heavily freighted with assumptions before its infusion with Darwinism. It came to the fore in the seventeenth and eighteenth centuries and is particularly associated with the intellectual development known as the Enlightenment. At this stage, it consisted mainly of the belief that man was coming to know the world in which he lived and that this new knowledge would enable him to control the world or to live a richer life within it. Thus, the idea of progress was initially the notion that man can come to know his nature, the nature of the universe, and the laws of nature, and to make progress by utilizing this knowledge.

But when this idea of progress was infused with Darwinian concepts, it acquired a whole new cargo of meanings and overtones. It acquired a host of metaphysical assumptions which were implicit in the generalizations propagated by the early evolutionists: namely, that the whole universe is in a constant state of evolution, that everything which exists is a result of an evolution, that all life has evolved and is subject to such laws as may govern evolution, that the basic law governing life is a contest with other life for the means to maintain life, that in the contest the fittest survive and progress takes place. Progress became something which takes place automatically, whether man will or no. By the strange logic of the spread of ideas, the "laws" of evolution were extended to social organiza-

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tions, institutions, and ideas; they too evolved. The latest was the best by virtue of its existence; it was the fittest because it had survived.

When it had taken on all this cargo, the idea of progress had become a myth. It was universal in its application and comprehensive in its coverage. No matter that it was the creation of intellectuals, it entered into the lore of the people. Evidence was available on every hand to support the myth, just as the myth itself served to move men along lines of development consonant with it. The evidence appeared to indicate that man was the latest in the chain of evolution and obviously the best. Was he not the most complex, the most adaptable, the highest of the animals? Were not the material conditions of mankind improving as evidenced by better roads, swifter means of transportation and communication, greater production and wider distribution of goods? With new developments in medicine, dread diseases were controlled, and the average life span was extended. In the nineteenth century, institutions were "perfected" which protected the liberty of the individual, and histories were written showing the evolution of freedom through the centuries. The latest was obviously the best in that it was faster, safer, more efficient, saved labor, provided more goods, extended freedom, and made life more certain.

Unconscious Change

As the myth gained adherents, philosophy and reason yielded up their role in human affairs. Change is not the result of conscious thought; it is inevitable, driven by subterranean or cosmic forces: the Unknown of Spencer, the contest for the available goods in which the fittest survive of Darwin, the interplay of heredity and environment of Julian Huxley, the adjustments which attend technological innovations of Marx, the energy made available by the sublimation of sex. As William Graham Sumner said, "The things which will change it [the stream of time or history] are the great discoveries and inventions, the new reactions inside the social organism, and the changes in the earth itself on account of changes in the cosmical forces."

With the intellectuals embracing a view which pronounced them superior to their predecessors, the myth was spared subjection to logical analysis or exposure of its metaphysical assumptions. Why, for example, did each change constitute improvement or progress? By what criterion is a speed of 200 miles per hour preferable to

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one of 100 miles per hour? By what criterion is machine production superior to skilled hand production? It is possible, of course, to name criteria in terms of which these changes would be progress. But the criteria would not be based upon the evidence but upon assumptions or beliefs as to what is desirable. In other words, the criteria would rest upon the *a priori* and metaphysical assumptions about the purpose of life held by the men who maintained them.

The myth acted also to inhibit certain kinds of historical study. Here is a paradox. Evolution made the study of everything basically historical – the study of its evolution or development. But it also made historical study almost purely academic, as that word is now understood. Any study probing into the past must be dealing with dead fossils, for all that was good still survives since the fittest always survives. Of course, ideas are rarely carried to such an extreme, and they are seldom if ever realized. So, under the impetus of evolution the study of history has flourished. But it is a history with only an academic *raison d'etre*, only for its entertainment value. It is the study of the past upon which the present stands, but it is disjoined by the myth from having much to do with the future. To return to anything in the past would be devolution, if it were even possible.

Looking Backward

The above is an outline of the myth: the belief that the latest is the best, that the past is irretrievable, that progress is inevitable, and that you can't turn back the clock. It is my belief that we usually read the historical record through the distorted lens ground to the specifications of the myth. In other words, we see history from the perspective of the myth, and read into it evidence to support the assumptions. The view that man, institutions, societies, and beliefs follow evolutionary patterns is based upon *a priori* assumptions which derive from evidence built up from a study of inanimate objects, plants, and animals. The truth of these assumptions can best be tested by doubting their validity.

Certainly, Western men prior to the eighteenth century have been much more inclined to look back to the past for guidance and direction than to accept the latest as the best. Most peoples have had their lives founded in the customs and traditions of the past. They have thought of any change as a harbinger of chaos and disintegration. It would be much better to continue with that which had been

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tested and found workable than to venture into the unknown. When men have had rights and privileges, they have been founded in past grants and ideas. To have been fashioned of old was long believed by men to be an argument in favor of a thing.

Looking backward to the past, attempting to revive something from the past, revering the aged was based on assumptions which had mythological bases frequently, just as does the current rejection of the past. Many peoples have believed in the myth of a Golden Age in the past. This myth may refer to the profound belief in the Fall of Man, the lost harmony with God or with the universe, the great age of the Greek city-states, the *Pax Romana,* or any other past condition.

To Christians, the yearning to restore the past was supported by the desire to restore the lost harmony between God and man. Men in the Middle Ages looked backward to the Incarnation of Christ by which the means for the restoration of harmony was made available. They looked back to the age of the Apostles and the Fathers when the word was fresher and purer, not yet so corrupted by the passage of time. The Protestant reformers, for the most part, wished to return to the purity of primitive Christianity.

I do not intend here to argue that these earlier myths were more nearly true than current ones, though they may have been. My point is that other men have revered the past as profoundly as we reject it. Since they did so, their actions provide historical evidence as to the viability of restoring something from the past. What I would like to do here is simply to rescue historical evidence from the limbo into which it has been cast by the believers in the myth of progress.

An Age of Transition

The possibility of turning to the past with profit should not be confused with attempts to restore the past *in toto.* It is not necessary to show that the Roman Empire was restored in facsimile in the Middle Ages to demonstrate that the attempt to do so had salutary results. Roman law was not restored in its pristine purity in Western Europe in the twelfth and thirteenth centuries, but its revival brought reason to many judicial proceedings and gave impetus to legal thought. Sir Thomas More did not divide England into city-states, but he and his fellow humanists did succeed in making the Greek language and literature a part of the intellectual equipment of educated Englishmen. Perhaps the Protestant reformers did not restore primitive Christianity, but in attempting

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to do so they did revitalize Christianity and make it a live and relevant religion for millions for centuries. Who would deny that when thinkers of Medieval Europe turned backward to Aristotle that intellectual life received new vigor? The United States was hardly envisioned as a Roman city-state, but she was styled a republic, her upper legislative house was called the Senate, and she adopted a constitution in the manner of Rome. Were all of the above "brainless" efforts to turn back the clock?

It does not follow, of course, that every attempt to restore something from the past is commendable or that all experiments with the new are misguided. I am attempting to redress an imbalance in emphasis, an imbalance maintained by the support of a modern myth. Historically, once we ignore the myth, looking backward has been a very fruitful pastime. It has been the source of periodic renascences of the Christian era. Far from being "brainless," it may be the only sensible alternative to deterioration and chaos at this time. It is a commonplace today that we live in an age of transition. An age of transition to what? Here the prophets become vague and suggest that we cannot know, we shall just have to wait and see. Is there really any *reason* to suppose that if we sit passively waiting for what may come that anything but disintegration will come? To return once more to history purged of the myth of progress, the new has come when men have been caught up in new visions, new enthusiasms, when they have been revived and restored. More often than not, it seems to me, this has been spurred by a return in some way to the past.

Sources of Solutions

There are numerous questions today that should be referred to the past in the hope of finding answers. For example: Have the liberties of men been protected by concentration of power in governments, or by the limitation upon and separation of power? Has the vitality of a people been enhanced by governmental assistance, or by leaving them on their own to look after their own needs? Does desirable change result from the activities of disciplined men, or is it the result of blind chance? Or let us turn to the past in another way: Have some men in earlier times held nobler ideals than men do today? Have more gracious manners been promulgated prior to those of Amy Vanderbilt? Have more worthy purposes of life been enunciated in earlier times? Is Christianity dead, or does its revival depend upon a new vision of ancient meanings?

I am not suggesting that the an-

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swers to these questions are simple or easily discovered. What I am saying is that some of the answers may be found in the past, that these are vital questions, and that there is no reason why we should not turn to the past as one of the sources of solutions. We do have much more reason for doubting that the latest is the best than did men in the nineteenth century. The life span has been extended but the continuation of life itself has been thrown into doubt by the development of nuclear weapons. The latest political institutions are totalitarian states, hardly refuges of freedom. Concentration camps, military dictatorships, juvenile delinquency, and huge military expenditures are endemic twentieth century developments. The myth of progress now inhibits thought and action, whatever its role in earlier times.

Keep the Living Values

The myth will not be easily exorcised. Those under its sway have a whole arsenal of arguments that I have not touched. They hold up as spectors past brutalities and cruelties which would be returned when anything from the past is restored. But is there evidence that an attempt to restore any one thing will result in restoring everything? Authority might be restored to the home without restoring brutality toward children or women. Rule by law rather than by men could be restored without returning capital punishment for stealing a pig. It is true that freedom and responsibility cannot be restored without exposing men to inconveniences and possible suffering. Vitality cannot be restored to modern life without reviving an awareness of perilous choices which confront us each moment. Reason cannot be restored to public deliberations without subordinating human passions and desires to it. Rescuing the living value of the past will not enable us to build utopia. It will broaden immensely our experience and widen the range of our choices, as well as heighten our awareness of the possibility of choice.

Looking backward can be an exhilirating and rewarding experience. There are whole mental worlds of wisdom available to us once we view man's past achievements, failures, and aspirations creatively. There are live wires, to borrow a phrase from William James, running through the whole course of history. We neglect the values of the past to our impoverishment; we plunge into the future unguided by the past at our peril. With so many riches from our own American past, we ought not to be inhibited from using them by the myth that you can't turn back the clock. ◈

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VALUE— a moral issue

ROBERT M. STOCKING

ONE THING we "Westerners" pride ourselves on is our system of determining value, particularly economic value. It is, we believe, the fairest, truest, most accurate system ever devised, based as it is on the law of supply and demand. Some philosophers, however, feel that value determined in the free market is morally delinquent! In fact, they believe the law of supply and demand to be the basis of a vast swindle through which the public is blatantly bilked of billions!

From where we sit, it is easy to view these fellows as fanatics whose intellectual honesty has been subordinated to their political preferences. They appear to reject the free market simply because Socialists have labeled it "capitalist." But it seems more probable that they honestly do not understand the moral justification of the law of supply and demand and *therefore* have become sympathetic to socialism.

According to socialist views, the labor theory of value determines the true economic worth of all goods, except of course, those which are socially unnecessary. Simply stated, the theory holds that the true value of all merchandise (or service) is the labor incorporated in its production.

Market value, on the other hand, may be considerably different from that determined by the labor theory. Simply stated, the principle of supply and demand observes that people will demand (try to get) the things they want; and when the supply is great, they will pay less, when short, pay more.

This idea of scarcity creating an increase in value is the first of a number of stumbling blocks in understanding the morality of market value. It is perfectly pre-

Mr. Stocking owns and operates an advertising agency. His interest in the subject of value stems from the fact that the promotion of value is his business.

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posterous, it is argued, to claim that scarcity makes us wealthier (by increasing market values) and abundance makes us poor! Since quite the contrary is the case, the law of supply and demand represents a separation from reality. Capitalist economies being self-contradictory, therefore, are doomed to self-destruction!

The Point of Saturation

An English writer, W. F. Lloyd (1794-1853), answered this question long ago. He pointed out that specific wants are satiable and that value tends to disappear at the point of satiation. His famous example tells of a hungry man getting successive ounces of food and demonstrates that his desire for food tends to *diminish* with each additional ounce.

Had Mr. Lloyd continued his analysis, he would have gone into the area of specific abundance and the creation of negative value. If the subject were fed additional ounces of food after he said he wanted no more, we can see that his negative value would also tend to change with each succeeding ounce, each increase in negative feeling being expressed more indignantly! In fact, if continued long enough, the experiment might end in violence!

This concept of diminishing utility (value) implies the limits of our environment: we appear to live in a narrow area of optimum conditions any great divergence from which will cause dissatisfaction, discomfort, or death!

These environmental limitations are at work with all goods and services. Consider salt, for example: it is essential to the proper electrolytic function of the human body and is valued by many who purchase and consume it a pinch at a time day by day. Yet, if we were to consume at one meal all the salt consumed in a lifetime, it would cause violent illness or death! Ice, which we go to such pains to produce artificially in our refrigerators, falls free on the ground in the winter time. Yet, instead of being overjoyed at our newly acquired wealth, we employ an expensive waste-removal system to get rid of the stuff.

Scarcity (as a prerequisite of value) is a factor in economics because it represents a divergence from optimum conditions. A better word might be unfavorableness. Excessive supply can be just as unfavorable as deficient supply. And whether or not such scarcity or abundance is good or evil and to what extent, is purely a human judgment. (A scarcity of bluebottle flies, for example, might have little economic significance.)

Wealth is goods that are valued

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because they help achieve optimum conditions or eliminate non-optimum conditions. In a state of Nirvana, optimum conditions appear totally achieved; hence, the striving to achieve them disappears as does all value and wealth.

The difference between the labor theory and supply and demand appears to be the difference between an objective and a subjective approach to economics. The Socialist observes objectively that the manufacturing of goods costs a certain amount of labor time. Thus, he can tell you precisely what the goods are worth regardless of what you or anyone else may feel about them. Personal feelings, he might say, have no place in science!

Personal Value Judgments Versus Market Value

On the other hand, an advocate of the free market will point out that there is a vast difference between scientific *efficiency* and scientific *officiousness*. It is just as officious to try to tell someone that you know better than he what he wants scientifically as artfully.

Let me put it this way: I specialize in certain kinds of work but claim to be an expert in practically nothing. There is one question, however, on which I am the world's leading expert – the question of what I want. I have been collecting information on the subject for years, and have acquired more experience in this particular area than any other mortal soul. It would seem to me, therefore, that in estimating how I value things, it would at least be useful to ask my opinion.

Of course, personal value is thought by many persons to differ entirely from market value. They appear to reason as follows: To the owner of an abundance of knives, one knife more or less would have little value. But because it can be exchanged for cash in the market place, it has a market value which is completely independent of the personal value its owner might give it.

In judging the world according to our own values, we might easily conclude that everyone values knives as little as we do and that the mysterious cash value of knives is purely the result of some trickery of an abstract market. But careful study will show that the collective phenomenon of the market actually possesses an atomic structure, each constituent part being one indivisible consumer (or corporate representation thereof). And while the values he expresses may be considerably different than my own, they are just as personal to him as mine are to me.

The miracle of the free market is the manner in which competi-

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tion increases real values and thus raises the general level of economic activity. We could estimate the value of refrigerators, for example, on the basis of replacing otherwise spoiled food. Such savings in a modern household can amount to hundreds of dollars a year. Some families, at least, might be willing to pay thousands of dollars for a refrigerator, because even at such high prices, it would be more profitable to buy the refrigerator than suffer the losses of food spoilage.

But in the free market, competitors offer refrigerators at lower and lower prices (and with greater and greater improvements) until most consumers find it quite profitable to own one. So, the real miracle of the market is the way it supplies goods and services at prices well below the values many consumers hold. Hence, greater numbers can enjoy greater abundance, which in turn stimulates production, and so on, up to the miracle of modern America.

In other words, because of competitive forces, the price of refrigerators is so much lower than most consumers would be willing to pay that those consumers enjoy a large margin of profit or satisfaction in use. On the other hand, competing manufacturers of refrigerators have differing rates of efficiency or costs of production, and this is why some of them are able to produce and sell refrigerators at a profit. The market price consumers will pay will be just high enough to keep the necessary manufacturers in business. The least efficient manufacturer who stays in business will barely break even or recover his costs – the marginal producer; others will show a profit, depending on how capably they can cut costs of production.

Aristotle's Error

The difficulty in understanding value appears to go back to Aristotle. Tangible goods, he thought, were the ethical abstract of wealth. But intangible goods (services such as retailing) were just the opposite. Such, he said, "were to be censured."

But thanks to studies in modern clinical psychology, we now know that Aristotle had it exactly backwards: All goods, whether they originally appear tangible or intangible, perform only service. Food performs the service of nourishing the body; clothing the service of protection; automobiles the service of transportation; medicine the service of healing; and so on. Hence, the ultimate abstract of wealth is never tangible goods, as Aristotle thought, but only the intangible, service. And goods are the substance of wealth

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only so long as consumers continue to value the services to be performed. But this value is purely personal, fluctuating and frequently capricious. It is upon this intangible – the personal value of services – that an advanced, free market society is based.

One of the services Aristotle particularly resented was the lending of money and especially the collection of interest (though he did approve borrowing money without interest). From that day, some hundreds of years before the beginning of the Christian Era, money lending has been tainted with Aristotle's ire, and usury has been considered evil. In fact, in socialist Russia today, investments are not permitted to earn interest. As a result, malinvestment is one of their greatest social problems.

From these Aristotelian ideas derived a centuries-long controversy about which kind of income was good and which evil. According to socialist views, good income is that which is sufficient to satisfy basic wants. All other income is profit, and, therefore, evil.

This kind of thinking appears to derive in part from Aristotelian confusion about the morality of income and the meaning of profit. Actually, profit is an integral part of value: what is valued is only the profit which will result from consumption. However, the word "profit" is used with at least three different meanings: the acquisition of cash (profitable employment), then goods and services (profitable purchase), and finally the use, consumption, or enjoyment of them (a profitable experience, for example, in attending a play).

The Physiology of Profit

Profit is a physiological phenomenon. Theoretical profits are all right, but if we eat theoretical food, ride around in theoretical automobiles, and wear theoretical clothing, we may find our physiologies rebelling against our philosophizing and might just end up in a mental institution. Physically, profit only occurs when the human organism reacts to, or with, some object or service valued. All other uses of the term refer to this physiological potential. Money itself is not consumable. The only purpose of profit-in-money and profit-in-goods is the ultimate realization of profit-in-satisfaction.

Socialists believe that the value of goods depends upon their innate characteristics. A knife is valuable because it possesses a unique configuration, one that makes cutting possible. Therefore, the value is "in" the shape of the knife. The reasoning is good but doesn't go far enough. It isn't the shape of

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the instrument or even the act of cutting that is valued but only the service performed thereby. Cutting a piece of meat from a roast — so creating more favorable meat-eating conditions — is considered desirable and profitable by many. Cutting a piece out of one's arm is not.

Nevertheless, Socialists believe that value is an intrinsic part of all goods, as did the classical economists. According to Karl Marx, the "scientific" Socialist, value is created in the manufacturing process, derives from laboring, and so appears in goods as a kind of crystallization of labor. Specifically, it is said to be "labor in crystalline form," and as such immutable ectoplasm, it is not subject to modification by the mere opinions of the likes of you and me.

Modern psychological studies reveal, however, that there is no such thing as intrinsic value — not now, and never was! What we refer to as intrinsic value is in fact the psychological mechanism of projection: we project our ideas of value into things and then conclude that the value is possessed by them (is inside them).

Most anyone will agree, for example, that a twenty-five pound ingot of gold possesses great intrinsic value. But careful questioning will probably reveal that they neither intend to wear, eat, ride on, or in any other direct way consume the stuff. The value they project into the gold is only the image of the satisfactions which they anticipate will be forthcoming from the consumption of the goods or services for which they expect to exchange it.

If Cost Were Value, Beggars Would Ride

We could all give up working for a living if we could only convince storekeepers that cost were value. Every time we walked off with another load of merchandise, so engendering (among other things) inventory cost, we could explain that with each succeeding increase in cost, he gained a corresponding increase in value and so was actually becoming wealthier and wealthier.

Socialists have long realized that the simple incurrence of cost (labor cost) did not necessarily create value. (They use the word value to mean wealth, which error is basic to the fallacy of the system.) The creative act only occurs when labor manufactures "socially necessary" goods. But with a controlled market, the mechanism by which we can find out what is socially wanted is destroyed. With no free market, through which the public can communicate its wants and desires, it

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becomes the job of socialist experts to estimate what is socially necessary and what is socially unnecessary.

With some goods, the decision is clear-cut and little intelligence is needed. Automatic washing machines, for example, appear totally unnecessary, so their manufacture might be forbidden. Coarse bread, on the other hand, appears quite necessary, and its manufacture would be required. But most goods fall somewhere between the extremes of socially necessary and socially unnecessary, and so it becomes quite a job to determine what should be valued how much and therefore "laborized." Then, the Socialist must instruct the consumer as to what he may want and what he may not, what he may buy and what he may not, what he may pay and what he may not pay. And we can almost imagine some modern-day Socrates asking: "Would it be better if we let them decide for themselves?"

It is quite clear that the "Great Socialist Discovery" is that when labor manufactures the things we value, *wealth* is created (though they never got the terminology straight). So in order to make the labor theory appear to work, they must control our valuing – that is, control our thinking. The real meaning of the "social necessity" clause in the labor theory, therefore, is an automatic demand for wholesale thought control.

At the same time we note that thought control – or, at least a massive attempt at it – has become a serious social problem in every socialist state established so far: National Socialist Germany, Fascist Italy, the Union of Soviet Socialist Republics, the People's Republic of China, and so on.

Social Classes

In these States the public has been divided into two classes, the high class made up of socialist experts and the low class made up of the workers. The political structure is essentially identical with the aristocratic system of medieval Europe and might properly be referred to as the New Aristocratic System. The aristocracy owns all property in the name of the workers (in order to eliminate the evil of private ownership) and manages it, with the aid of thought control, according to the principles set forth in the labor theory as well as a few assorted ideas of their own. The economy is essentially feudal with the exception that it is primarily industrial rather than agrarian.

The trouble has been that in every case, megalomaniacs have seized control of the governments at once. They have promptly con-

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verted the "benevolent despotisms" into tyrannies as horrifying as any recorded in history.

In order to make it easier for the socialist world to understand the high moral level of an advanced, free market society, it might be helpful to look at the law of supply and demand along lines that more or less parallel the socialist structure.

The "demand" part of the law, representing the aggregate of personal or consumer value, is significant only in terms of the cash offered. Potential customers may think they value some commodity a great deal, but if the cash offered doesn't match the protestations, we have evidence with which we can separate the real from the imaginary. Hence, consumer value as expressed in cash is a precisely delimited, though temporary and changing, reality. But consumer "interest" in new products represents a speculative thing because there is no telling whether the "interest" will be backed up with cash when someone finally appears with the merchandise.

Consumer Law of Values

Thus, a free market economy is based upon a consumer law of value, validated in cash, in which value is measurable *only* in terms of consumer choice. Its moral basis is the observation that he is the only reliable authority on the subject of how much he wants of what. Whether or not you call this a law or theory depends upon the respect you have for others. To the cynic, consumer value is theory. To someone who has learned respect for his fellow citizens, it is law.

The "supply" part of the law of supply and demand is the voluntary manufacture of goods and services in response to the rewards offered in the free market. The manufacturing involves the risks inherent in specialization — the same specialization which creates such economies in production costs — and so requires a stable political system under which all participants tacitly agree to exchange equal rights for one another and follow the same rules of behavior (law). The equality involved refers to rights and laws and not to such physical matters as height, weight, serviceability, bank balances, and so on. For men of good will, respect for the rights of others is a moral obligation which is assumed voluntarily. Among those of ill will, a police force is required to protect the rest.

Supply is "controlled" by consumer expressions of value in terms of cash: a consumer bids higher (is willing to pay higher

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prices) for goods he wants more, so encouraging greater supply; he bids lower (or not at all) for goods he wants less or none of, so discouraging the manufacture of a flood of unwanted merchandise. In this way, for example, the manufacture of horse-drawn wagons has been effectively discouraged in Western nations since the advent of the automobile.

Hence, a free market economy can be described as a philosophical structure founded upon and controlled by the *general will* which is expressed in, and in that way determined by, the free market.

With this brief rearrangement, a consumer law of value can be contrasted directly with the labor theory of value. The incentive system of supply contrasts directly with the compulsory system. Hence, the basis of a voluntary, free market society can be directly contrasted with that of an aristocratic or socialist society.

To question the morality of the law of supply and demand, upon which the free market is based, is to question the individual's right to value. It implies that it would be more moral for a clique to impose its own values upon the majority. To some personalities, such tyranny may appear supremely moral. But to the majority, it sounds insane!

* * *

This "philosophical structure" represents a line of reasoning and therefore can be referred to as common sense. It will surprise many readers to learn that some intellectuals believe that common sense has been discredited. They feel it is so studded with imperfections as to have become utterly useless. But common sense is just the layman's term for rationality. And recent psychiatric opinion holds that imperfect rationality is considerably better than even the most perfect irrationality. Although common sense may be studded with imperfections, until the advent of superman, it's all we mortals have to work with; so we might as well make the best of it.

IDEAS ON LIBERTY

The Power to Tax . . .

"THE TAX HISTORY of the United States in recent years has been fairly sensational. A visitor from Mars would suspect that a Communist fifth columnist was writing the laws for the purpose of making private enterprise unworkable."

SUMNER H. SLICHTER (circa 1940)

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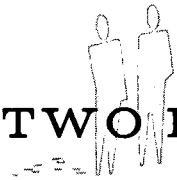

The TWO Baruchs

BERNARD M. BARUCH, as the two volumes of his *My Own Story* (Holt, $5 and $6) make plain, has been two men. The problem of reconciling the two Baruchs is one that our time has not been able to solve. Nor does Mr. Baruch help very much when it comes to attempting a reconciliation. He simply states the case for each Baruch, lucidly and candidly. They exist quite apart from each other.

The first volume of the memoirs is by all odds the most interesting. Here we see the private Baruch in action. A young South Carolina boy of Jewish extraction who was brought to New York City at the age of eleven, Baruch was never particularly bothered by anti-Semitism. He assumed that he was as good as anybody, and the world paid him the compliment of taking him at his own valuation. At the College of the City of New York in the eighteen eighties he listened to Professor George B. Newcomb expound the law of supply and demand. As Baruch recalls Newcomb's words some seventy years later, they went:

"When prices go up, two processes will set in – an increased production and a decreased consumption. The effect will be a gradual fall in prices. If prices get too low, two processes will set in – decreased production because a man will not continue to produce at a loss and, second, increased consumption. These two forces will tend to establish the normal balance."

Ten years after his first introduction to Professor Newcomb's political economy Baruch "became rich by remembering those words." When other men tried to suspend the law of supply and demand in copper, hoping to effect a corner that would keep prices high, Baruch bet on the discovery of new sources of copper. Indeed, he helped bring new sources into being by backing a young mining engineer from Missouri named Daniel C. Jackling. It was Jackling who applied strip mining methods to

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the cheap exploitation of low-grade Utah ore. Along with the Guggenheims, Baruch knew that Mother Nature makes it virtually impossible for a "trust" in any raw materials to exist for very long. And, simply by recalling Professor Newcomb's words about supply and demand and applying his own acute sense of timing, Baruch made money by being in and out of copper at the right moments.

For a long period the young Baruch carried his office more or less in his hat. He worked as a partner in a brokerage firm, but he made his millions by trading on his own account. On one occasion he tried to make money out of his prior knowledge that a coffee price maintenance scheme was being cooked up. It was his one big mistake: the price of coffee, quite in accordance with Professor Newcomb's words, fell.

The Speculator's Role

Baruch makes no apology for having been a "speculator." The speculator is necessary if free markets are to be maintained. True enough, there were good and bad speculators in the days when Baruch was first amassing a little capital. Bad speculators sometimes made money by operating pools which bid the market up and down without much relation to the forces of production. Baruch kept his eye on this breed – and he was usually in a strong cash position whenever they had bid stock prices too high. He was not one to fall for the "madnesses and delusions of crowds."

For his own part, Baruch preferred the Edward Harriman type of "speculation." Harriman used his knowledge of the market to pick up control of the Union Pacific when it was "two streaks of rust." He made his purchase pay off by putting the Union Pacific on its economic feet. In short, he was a "builder" – as Garet Garrett was later to maintain in a novel based on Harriman's career.

Baruch was also a builder when it came to developing raw materials. He tried to interest the elder J. P. Morgan in Texas sulphur. Unfortunately he used the word "gamble" in Morgan's presence – and Morgan bowed him out of his office with a curt statement, "I never gamble." Actually, there was no "gamble" to Baruch's sulphur proposition, for an oil engineer, Herman Frasch, had developed a method of melting sulphur in the earth and piping it to the surface, where it could be allowed to solidify in cooling bins. Baruch got expert engineering advice about his Texas sulphur deposits – and he held on to his great capital gains in the Texas Gulf Sulphur Company by selling out before the 1929 crash. The Morgans missed out on

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the deal – but then, as Baruch puts it, they were not in dire need of the money anyway.

From Demand and Supply to Price Controls

By the strangest of cosmic ironies, Woodrow Wilson asked Baruch, the nation's foremost practical believer in the law of supply and demand, to take charge of the War Industries Board in World War I. The War Industries Board proceeded forthwith to suspend the normal workings of supply and demand by state intervention. Baruch used his knowledge of men to purchase copper and steel for the government at what amounted to "gift" prices. He appealed to the patriotism of such tycoons as the Guggenheims and Henry Clay Frick – and got what he wanted without using the big stick. When other suppliers held out for the natural wartime price, he threatened, bullied, or cajoled. But he couldn't stop inflation altogether.

After World War I the "second" Baruch, the disbeliever in "laissez faire," took over. As a Democrat, Baruch backed the efforts of George Peek to suspend the workings of supply and demand in agriculture. He was for the McNary-Haugen bill which sought to maintain domestic grain prices by dumping the surpluses abroad and collecting an "equalization fee" from farmers to pay for the losses. (The idea was that this would discourage excess production.) As Mr. Baruch explains it, he didn't really believe in the "protectionist basis" of McNary-Haugenism. "Still," he says, "if the farmer could not be aided by the reduction of industrial tariffs . . . then he ought, in simple justice, I thought, to enjoy the same advantage enjoyed by industry under the protective system."

Ruefully, the "non-laissez faire" Baruch writes:

"If we were unable to knock down the old artificiality of the industrial tariff, which interfered with the normal working of supply and demand, we had to build up a new artificiality to offset it. This usually happens when we interpose man-made laws against natural law. We have to interpose another innovation to save us from the effect of the first."

The case against "planning" could not have been more succinctly put. And when the New Deal – using such World War I "Baruch men" as Peek and General Hugh Johnson – tried to circumvent the natural workings of the market by such devices as AAA and the NRA, Baruch remained a skeptical spectator. "I attempted to help Johnson in the herculean task he had undertaken," says Baruch, the good Democrat, but "I was

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often unhappy with the measures adopted by NRA. On more than one occasion, I warned Johnson that he was trying to do too much." Later, in a letter to Josephus Daniels, Baruch said of NRA and other "fiat" measures that "I don't think any of them will ever work until we pass a fiat changing the law of supply and demand, and the workings of human nature."

The Dilemma

But if one can't change the workings of human nature, how fight a war without inflation? Baruch still maintains that prices and allocations must be controlled under the circumstances of modern war. He is all for keeping the idea of the War Industries Board alive for "crisis" use. But the question is: When does the crisis begin, and when are we to know that it is over? The political mind, enamored of "control," swiftly gains a vested interest in maintaining that "crisis" is always here.

In neither volume of his memoirs does Baruch supply a way of circumventing the political mind — and in consequence the "two Baruchs" cannot be reconciled. They exist as two separate personalities inside the same tall and imposing physical frame which still enjoys life at the age of ninety-one. ◈

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OUR COMPULSORY social programs are ingraining decadence and we are paying for them with something more precious than money, our freedom. One cannot truthfully keep shouting for freedom and vote it away in the name of "for the common good." "For the common good" often means "For my good." Such actions are plain nonsense. More use is needed of that arch enemy of nonsense called "common sense." We should do for ourselves what we have been voting to force the other fellow to do for us through government. Let us remember that in curtailing the other fellow's freedom we are curtailing our own. The law of consequences cannot be by-passed.

RALPH E. LYNE, Taylor, Michigan

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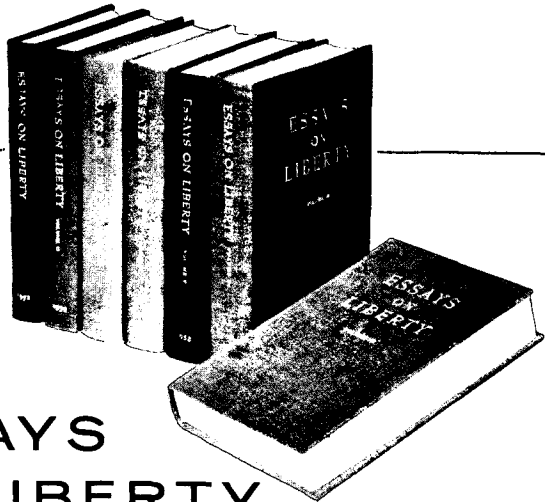

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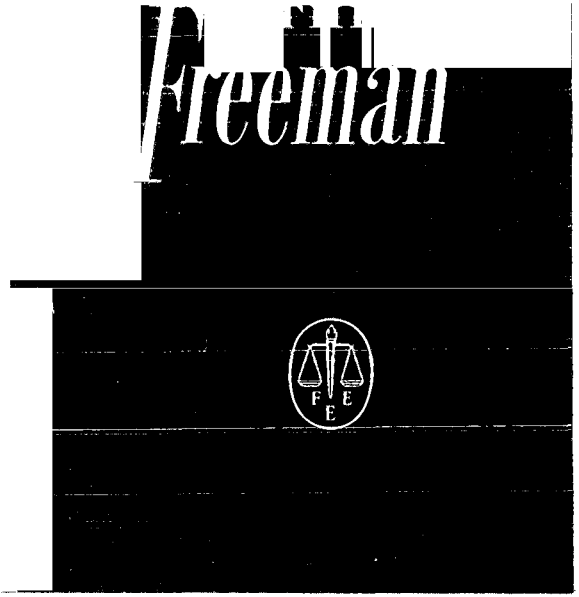

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■ The modern leveler, after having done away with conventional inequalities, with arbitrary privilege and historical injustice, goes still farther, and rebels against the inequalities of merit, capacity, and virtue. Beginning with a just principle, he develops it into an unjust one. Inequality may be as true and as just as equality: it depends upon what you mean by it. But this is precisely what nobody cares to find out. All passions dread the light, and the modern zeal for equality is a disguised hatred which tries to pass itself off as love.

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